

THE UNDERLYING PRINCIPLES
OF
INDIAN
FISCAL ADMINISTRATION.

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THE UNDERLYING PRINCIPLES OF INDIAN FISCAL ADMINISTRATION.



INTRODUCTORY NOTE.

THE principal, perhaps the only merit which these Essays can claim is that they contain an exact record of the impressions received by an independent observer from a study of Indian fiscal conditions and policy as they presented themselves to him in India, and of the ideas, whatever these may be worth, to which the impressions gave birth. I wish that I had been able to revise and rearrange what I have written more carefully than I have done. Circumstances prevent me from doing so now, but I think it better to let the papers appear as they are, while public attention is still directed to Indian affairs, than postpone their publication to a time when the existing interest may have died out. My acknowledgments are due to the Editor and to the Proprietors of the *Pioneer* for permitting such portions of the Essays as have appeared in that journal to be republished.

The resources of India are ample for her requirements,

but only provided the resources are properly utilized. It is not enough that in ordinary times the revenues produce a surplus over expenditure. The Indian financial system must be raised on a basis of sufficient breadth and endurance to withstand an emergency when it arrives. We have recently had experience of the helplessness of India in such a case. It is necessary to see also that both ordinary and extraordinary charges fall equally upon the several provinces and classes composing the empire. The past cannot be recalled, but it certainly is in our power to re-establish the financial system of India on a foundation of equity and strength combined, so that the consequences of past errors may not be perpetuated. This is the end at which the writer has been bold enough to aim. Imperfect as these Essays are, it is believed that out of them may be evolved a policy.

The articles contributed by Mr. Samuel Laing and General Richard Strachey to the June number of the *Nineteenth Century* on the subject of Indian Finance, are confined mostly to a discussion of outlying questions,—important in themselves, without doubt, but, relatively to more fundamental matters, possessing subordinate interest only. Syed Amcer Ali, in the same number of the same periodical, looks more deeply into the subject, but from the point of view of a particular class only. He wishes to see the Income and Licence Tax abolished, notwith-

standing that through it alone can the wealthy Native capitalists, and the mercantile community generally, be made to bear their fair share of the expenses of the State. I would respectfully beg reference to the remarks at pages 114 to 122 of the accompanying Essays on this subject. If even a moderate proportion of Native merchants, bankers, and other capitalists paid this tax, it would yield a very much larger sum than is now realized from it. Syed Ameer Ali surely does not mean to say (although he seems to suggest this) that the very insignificant sum which the well-to-do classes pay indirectly on the finer qualities of cotton fabrics imported into India is all that those classes should be expected to contribute to the revenue? The drift of the Syed's suggestions may also be inferred from the opinion which he expresses regarding the effect of an abolition of the duties on rice and salt. There is no present necessity or intention of abolishing the one duty or the other; but assuming them to be abolished, the effect as regards the duty on rice would be to improve the market for the cultivators, who form the largest portion of the population; and the removal of the duty on salt would make that article cheaper to the poor. The Syed's view is that "the loss to the public revenue will accentuate the misery of the people." Does he perceive that if those duties were to be given up, some of the classes who now escape might be called upon to fulfil the obligations devolving upon them as members of the Indian Com-

monwealth? There are other errors of opinion and errors of fact in Syed Ameer Ali's paper. He states that those who know the nature of the investments made by Englishmen in India, understand perfectly that a very small fraction of the savings withdrawn by them finds its way back for opening up the resources of the country. It is, on the contrary, the fact that Englishmen habitually invest large sums in opening up the resources of India. I would point to the tea industry, developed almost entirely by means of the savings of Englishmen; to indigo; to coal and iron-mining; and to the lately projected gold-mining enterprises. If some savings are carried away by Englishmen from India, much larger sums are brought by them to India, and they stir into vitality and movement the wealth lying dormant within India, causing it to increase and multiply. The opening of Indian ports, the development of Indian commerce, and many other benefits besides, cannot be left out of calculation in an estimate of this kind. The balance of advantages is largely in favour of India. Admittedly there are disadvantages attaching to foreign rule; but the British Government is the best Government that India could have in her present stage of progress, and for everything that India pays she receives full value. If there is reason to regret that some portion—not "an enormous portion"—of the wealth which would remain in the country, were it under Native rule, is now withdrawn from it, the aggre-

gate wealth of the people is greater than it ever was in former times. In place of being monopolized by a small number of individuals, whose gains were not always made by legitimate means, wealth is now more widely distributed. It certainly is not the case, as Syed Ameer Ali and some other writers who think with him assert, that the mass of the population is worse off now than at any time before under British rule. The mass of the population never was better off than it is, excepting in localities which have been visited by famine, and where Government has perhaps been a little too exacting in its revenue demands.

The more extensive employment of Natives of India in the work of administration, urged by this writer, is an object which should be kept steadily in view, as much on the ground of justice as of policy and of economy. In furtherance of this object, steps have been taken by the Indian Government. The change is one which must be carried out with the greatest circumspection. The Syed's remarks on this subject contain many inaccuracies, but these need not be entered into here. The suggestion made by him that the Permanent Settlement of the land, in force in Bengal, should be extended to the whole of India, is fully considered in the pages that follow. There is not the least foundation for his statement that the ryots in the other Provinces of India are in a worse condition—excepting where they have suffered from the ravages of famine—than the

same class in Bengal. Evidence could indeed, I believe, be produced to prove the reverse. At the same time it must be remembered that not only is the land the chief source of public income in India: the cultivation of the soil is the chief industry of India; and care must be taken that the industry is not crushed by the burdens thrown upon it. The best way of preventing this result is by making the rent moderate, and by requiring all the land to bear the load of public burdens equally. The existing inequality cannot be adjusted by local taxation, as Syed Ameer Ali suggests.

Mr. Laing seems to consider that the expenditure on productive public works should be defrayed out of revenue. This may become possible before very long, if some other measures are carried out. Mr. Laing under-estimates the value of those works, but he is correct in stating that the nett revenue from them is considerably less than 1 per cent. on capital raised at $4\frac{1}{2}$ per cent. There are, however, indirect benefits; and a direct benefit also accrues to the exchequer wherever Government is entitled to share in the increase of the land rent arising from the works. The Indian Government made the mistake, with respect to railways, of taking upon itself the construction of the unprofitable minor lines without first securing the main lines. The chief use of the smaller Government lines, unremunerative themselves, is to bring traffic to the main lines, and enhance their value.

Mr. Laing speaks of "oppressive taxation." There is no such thing in India. There was, before the licence tax was amended, but there is not now. In the case of the cultivators in some of the famine districts, State demands may have been a little too exacting, as already mentioned, but this cannot be said with regard to any other class. The classes, for instance, represented by the two bodies named by Mr. Laing, the British Indian Association and the Chambers of Commerce, do not bear their fair share of taxation. These two bodies are correctly described as representative—but they represent their own interests first and the interests of the people after. Their representations have on many occasions been characterized by great selfishness. The most influential of the Native newspapers also are exponents of the views of a particular class, whose interests are not always identified with the interests of the people. Nevertheless, the opinions which find expression through these channels must often be of great value to Government. They may be hostile sometimes, but it is well to be made acquainted with what can be said on the other side. If the measures of Government are based on the broad foundation of justice they will baffle isolated attack.

General Strachey's paper deals exclusively with the causes of the late error in the Indian Budget estimates; and in the controversy relating to that matter I prefer not to engage.

LONDON, *June 2nd*, 1880.

STATEMENT OF THE SOURCES OF INDIAN REVENUE.

| | | |
|---|-------------|--------------------|
| LAND REVENUE . . . | £21,679,000 | |
| TRIBUTES | 714,000 | |
| FOREST | 662,000 | |
| EXCISE | 2,765,000 | |
| ASSESSED TAXES . . . | 797,000 | |
| CUSTOMS | 2,231,000 | |
| SALT | 7,335,000 | |
| OPIUM | 10,459,000 | |
| STAMPS | 3,203,000 | |
| | <hr/> | £49,845,000 |
| MISCELLANEOUS SOURCES, such as Mint, Post Office, Telegraphs, Provincial Rates, Interest, &c., the revenue in each case being small and in many instances exceeded by expenditure . | | 9,035,000 |
| | | <hr/> |
| | | <u>£58,880,000</u> |

It will have been observed, from the statement on the preceding page, that the chief source from which public revenue is drawn, in India, is the land. The LAND REVENUE is contributed by the five largest Provinces in the following proportions, viz. :—

| PROVINCE. | Area in Square Miles. | Population. | Land Rent paid to Government. | Total Land Rent (gross estimated). | Term of Settlement of Government Share of Rent. |
|-----------|-----------------------|-------------|-------------------------------|------------------------------------|---|
| | | | £ | £ | |
| BENGAL . | 230,000 | 63,000,000 | 3,663,000 | 18,000,000 | Settled in perpetuity. |
| N.W.P. . | 81,000 | 31,000,000 | 4,298,000 | 9,000,000 | Settled for thirty years. |
| PUNJAB . | 98,000 | 17,000,000 | 2,005,000 | 4,000,000 | Settled for thirty years. |
| MADRAS . | 138,000 | 31,000,000 | 3,296,000 | 9,000,000 | Settled for thirty years. |
| BOMBAY . | 124,000 | 16,000,000 | 3,344,000 | 7,000,000 | Settled for thirty years. |

Local Cesses for Local Purposes, such as Education, Roads, &c., in

| | |
|--------------------------------|----------|
| BENGAL amount to | £560,000 |
| NORTH-WEST PROVINCES | 929,000 |
| PUNJAB | 300,000 |
| MADRAS | 802,000 |
| BOMBAY | 423,000 |

The Government proportion of the land rent of Bengal in 1793 was ten-elevenths of the whole, and amounted to about £3,000,000 a year, against £3,600,000 now.

The zemindars' share of the rent—the remaining one-eleventh—was £300,000 in 1793, against £14,000,000 now.

THE UNDERLYING PRINCIPLES.

DECENTRALIZATION is an important principle ; it eases the central administration, and at the same time makes the subordinate administrations more vigilant and efficient. They feel that their credit is at stake ; resources are economized ; and the wants of each Province more closely attended to than they would be were provincial responsibility not enforced. Decentralization is, however, not a first principle ; it comes into operation at a later stage. It concerns the proper management of the revenues, not the sources whence they are derived. In any inquiry into the nature of the sources from which revenue is drawn, it is necessary to take into consideration, first of all, the nature of the circumstances under which India is governed. We must bear constantly in mind the position in which the English rulers of that country stand to a comparatively ignorant and somewhat suspicious people. The method of raising revenue best suited to such circumstances would appear to be indirect taxation ; but, unfortunately, in India sufficient cannot be obtained from this source to carry on the work of government. In spite of the peculiarity of the circumstances, therefore, it is to direct taxation that we must

trust ; but it is needful to select such forms or sources as shall be familiar to the people, and shall supply what is required without creating discontent. The forms of taxation with which English experience makes us acquainted do not fulfil these conditions. Neither an income tax nor an imperial licence tax has been a marked success in India. All classes should, however, be taught to feel that they have an interest in supporting the State, and all but the very poorest should be required to pay something for the security which they enjoy. A licence tax or income tax is defensible on this principle, but neither a licence tax alone nor an income tax alone is exactly what is required : a measure consisting of a combination of the two would probably be best adapted to the circumstances of India ; one part to be applicable to small traders and capitalists and to the lower grades of the public services ; the other part to be applicable to merchants of more extensive business, bankers, other capitalists, and zemindars (in Bengal only, and while the permanent settlement lasts), professional men, and the members of all the public services in the higher grades. The lower division should be taxed roughly and very lightly ; the upper division with greater exactness and on a higher scale, but not too heavily. Labourers and ryots should be excluded ; the former because their earnings are little more than sufficient to provide the necessaries of life, on some of which also they pay indirectly ; the second because they contribute in other ways.

The exemption of Government servants and others dependent on fixed incomes from the operation of the present licence tax was doubtless conceived as a means of compensating them for the losses sustained by depreciation of the currency in which their incomes are paid ; but would it not be a better plan to make no exception in regard to taxation, and to let Government and other employers of labour settle matters with their employ es by direct compensation where found necessary ? Individual employers may be left to make their own arrangements. The case of Government is of public concern. The country cannot be efficiently governed without paying liberally for the exceptional training, talent, and high moral character which such work requires. No better men could be found than those who are now entrusted with the discharge of public functions. It would be unwise to do anything which might savour of injustice to them or furnish cause for dissatisfaction, and which would have the effect eventually of placing the administration of the country in incompetent hands. The loss of the services so far extends only to the enhanced cost of home remittances, of which only essential family remittances can be taken into reckoning, and to the additional expense of articles of daily consumption imported from abroad. What they lose in this way cannot be told with certainty, but may be estimated with sufficient closeness for all practical ends. Pay them, then, the compensation to which they may be entitled, but do not

draw a distinction in the matter of taxation between them and their fellow-subjects. The strongest reason in support of the claims of the servants of Government to receive compensation is founded, it will be observed, on considerations of policy and necessity, rather than of equity, but on the last ground also their claims might be urged with some force.

An income-licence tax should be of light incidence in both divisions of its application. It will become more productive as a source of revenue, without the need of making it more burdensome, the longer it remains in operation and as its working is rendered more perfect. But direct taxation of this form, even at the fullest development which it may be expected to reach, in the experience of those now living, at any rate, cannot, without making its incidence of such weight as to cause political danger, yield more than a small fraction of the cost of conducting the government of the country. Other forms of taxation are partly direct and partly indirect. The salt duty is an indirect tax. This tax, and the exceedingly minute sum paid on the limited quantity of clothing which suffices for the wants of each individual unit or family of the labouring population, are all that this class pays for the protection afforded to them and for the gradual improvement of their condition with the increasing prosperity of the country. If, however, salt were cheapened, the poor would be able to command more of one of the first necessities of

life, and would get it of better quality. A reduction of the salt duties would improve the health of the working classes, and might be made without injury to the revenue, as with a cheapening of the cost the consumption cannot fail to increase. The Custom duties on the importation of cloth are so light as to be hardly, if at all, felt, and as a source of revenue are at present indispensable. The objections taken to them by Manchester manufacturers are selfish and untenable; but there are broader considerations than they have urged which will justify the abolition of the import duties when the proper time comes. One of these considerations is that their abolition would give an impetus to commercial intercourse between India and England, and would improve the traffic of the Indian railways and raise the revenue from the land. Another reason—a political one—is that their abolition would remove a perpetual cause of friction and soreness between the two countries. It is very undesirable that one country should appear in opposition to the other. After all, India, as it now stands, is what England has made it, and nothing should be left undone which may tend to unite both more closely by the ties of interest as well as by the more fragile ones spun out of beneficent aims and national pride. The Custom duties should not, however, be given up until Government has secured possession of the railways and has succeeded in acquiring a right to share in the increase of the land rent wherever

Government is now excluded from participating in such increase. Nobody of moderately sober habits will raise a voice against the excise duty, which may be made as nearly as possible prohibitive, not alone without detriment, but with some possible benefit, to those who pay it. Stamps are an unobjectionable source of income, but they ought to be so regulated that they may not become too heavy a toll on the approach to law and justice, or impede mercantile and banking transactions. If the stamp duties cannot be reduced, they ought not to be raised. The revenue from this source might probably be improved by increased attention on the part of those who supervise it. Evasions of the Stamp Act are pretty general, especially amongst native shroffs and traders. The revenue from forests will become productive in time, but its development must of necessity be slow. Opium is of the same nature as excise, with the exception that, as often pointed out, in place of being paid by the people of India, it is paid by the people of China. It is objected to by many on moral grounds, but there is great reason to doubt whether anybody would be much the better, even in a moral sense, were the demand of those who advocate the abandonment of this revenue to be complied with. The first effect of doing so would be to make opium cheaper and to increase and extend its consumption in both India and China. Or, assuming that—under pressure, from England or otherwise—the cultivation and manufacture

of opium were prohibited in India, the cultivation would then extend in China. Would China also suppress the cultivation? We should not be justified in interfering to such an extent in the internal affairs of China as to compel the Chinese to do this, and it is at the least doubtful if they would do it voluntarily after the home production had been rendered much more profitable than before by stoppage of the Indian supply. It is also not at all clear whether we should be doing well or doing ill by suppressing the cultivation altogether. We should certainly, in so acting, deprive a large number of the human race of a very innocent and elevating enjoyment—when taken in moderation. To the argument that it is sometimes taken in excess, the rejoinder may fairly be made that so are some other exhilarating essences—such, for instance, as whiskey. Of the two, opium is perhaps the less deleterious, and there is no evidence that whiskey is deleterious at all—very much the reverse. There are few races more hardy, industrious, and enterprising than the Chinese, with their passion for opium, and the Scotch, who love Glenlivet. What should India do without her opium revenue, were those watery evangelists to have their virtuous way? England, if she take the responsibility of depriving India of this source of income, must accept likewise the responsibility of finding a substitute for it. If we are ever to lose the opium revenue, it will not be from the influence of external pres-

sure, but from an element of unsoundness inherent in the revenue itself. This element of unsoundness is the artificially heightened price from which the profit or revenue of Government is obtained. It will be strange if China, America, or some other country does not in the process of time succeed in producing an article equal in quality to Indian opium, and which, sold at a reduced price, will still leave a handsome margin of profit over the original cost. The present difference between cost of production and sale price leaves wide room for such an occurrence. "Threatened dogs live long," though, people say, and if proverbs have any worth—or this proverb in particular—the opium revenue may still endure through a prolonged existence. A good deal always depends on the quarter whence the threat proceeds. The attacks levelled at the opium revenue by irresponsible doctrinaires need not give rise to any grave anxiety; but the other threatening element referred to is of a more dangerous nature. The failure of the revenue from opium is a contingency for which it would be well to be prepared.

Of other possible sources of revenue not yet tried, a tobacco tax and marriage tax have frequently been suggested; but regarding neither of these can a decided opinion be formed without fuller information than is at present available. The facts bearing upon them deserve to be investigated. Both taxes probably possess the recommendation that they would fall in with native

habits and ideas. A registration fee on marriage might have the effect of simplifying the title to property, and is not likely to check the growth of population more than might be beneficial. A tobacco tax might be levied either as an excise duty on the cultivation or sale of the plant, protected by a duty on tobacco imported; or it might take the shape of a Government monopoly, as in the case of Bengal opium. Tobacco cultivation is at any rate well worth all the attention which Government can bestow upon it, whether in view of the possibility of turning it into a source of revenue, or with the object of procuring for it a prominent place amongst the staples of export trade. The necessity for resorting to these methods of taxation has not yet arisen, but steps might be taken to ascertain how far they could be trusted as reserves to bring forward in case of opium failing, or in some other emergency.

THE UNDERLYING PRINCIPLES APPLIED.

Summing up the gross revenue from the existing sources enumerated, we obtain an annual aggregate income of £27,655,000, thus :—

| | |
|--|-------------|
| Income and Licence Tax (for the present) | £1,000,000 |
| Salt | 7,335,000 |
| Customs | 2,231,000 |
| Excise | 2,765,000 |
| Stamps | 3,203,000 |
| Forests | 662,000 |
| Opium | 10,459,000 |
| | <hr/> |
| | £27,655,000 |
| To which add miscellaneous receipts, such as those from Tributes, Mint, Post Office, Telegraphs, Provincial Rates, &c.; the revenue in many cases falling short of the expenditure. | 9,035,000 |
| | <hr/> |
| | £36,690,000 |
| LAND REVENUE | 21,079,000 |
| | <hr/> |
| | £58,369,000 |
| | <hr/> |

Railways and Irrigation Works are excluded, because in their case revenue and expenditure very nearly square

up. The Finance Minister expects an improvement of £1,080,000 in railways in the current year. Government should leave no stone unturned to get the whole of the railways into its own hands, under an arrangement for management similar to that concluded with the East Indian Railway, and without further delay. The other sources of revenue which have been specified, apart from the land, are not very elastic, and some of them, it has been seen, may have to be given up or may themselves drop away, such as the Customs duties, which may have to be relinquished on political as much as on economical grounds, and the opium revenue, which is more or less unstable. Happily India possesses in her land revenue a productive source of income, familiar to the people, and a source which, excepting in one Province, will develop in a natural manner with the advancement of the country in material and moral well-being, and with the increasing cost of administration by which this advancement is invariably accompanied. The question then comes to be whether this one Province is to continue to be exempted from the increasing charge which the other Provinces have to bear, and whether it is to contribute nothing in consideration of the improvement of its land from works of public utility carried out either directly by, or with the aid of a subsidy from the State, while all other Provinces have to pay by the periodical enhancement of their rents. The ordinary expenses of the State are more likely to increase than diminish, not-

withstanding every effort which may be made and ought to be made to effect reductions. Much also remains to be done for the extension of public works. We have further to face a depreciation of the currency in which the land rent is paid, causing a diminution of value of the Government revenue and adding to the expenditure. If, therefore, the finances of the country are to be maintained in a state of solvency, either we must impose heavier burdens on the people in new and unfamiliar shapes, raise the cost of living to the poor, exact the highest contribution which can be levied from the other Provinces with each revision of their land assessment—in fine, cripple the country's resources, arrest its prosperity, and disturb its peace—either we must do this, or Bengal must pay her fair share of revenue along with the other interests and other Provinces constituting the empire. As a measure of justice as much as of necessity, the Bengal Settlement must be remodelled, and the fact that the conditions—the purposes or intentions—with which or upon which the Settlement was made, have not been fulfilled, adds increased force to the demand.

What the country has lost by the Bengal Settlement may be judged by the simple statement that the zemindars' share of the Bengal land revenue, which was in 1793 £300,000, is now fourteen millions sterling. The Government share is little more now than it was then. What has to be done is to bring up the Government share of the Bengal rent to the same proportion to the whole

rent as that which it bears in the other Provinces, and to secure to Government a corresponding share in the increase of the future. To accomplish this the present holders of land must be paid such compensation as it may be decided they are entitled to receive.

The doubt may be suggested whether Government, in appropriating a portion of the land rent for the expenses of the State, is not exhausting one of the main sources from which wealth is accumulated. Especially may this doubt be expressed with regard to India, where agriculture is one of the chief pursuits of the people, and where the profits drawn from mines and manufactures are still of small account. As between a permanent settlement in one Province and terminable settlements in all the other Provinces, such a question does not, however, arise. It does not apply as between Bengal—or rather the comparatively limited number in Bengal who are landholders—and the rest of India, so long as the land revenue is retained as a principal part of the public income, although it might lead to a solution of the land difficulty by another process, namely, by extending the permanent settlement to the rest of India, the State disposing of its right to claim a share in the increase of the land rent in the other Provinces. But before this course could be chosen, it would have to be demonstrated that the advantages of the accumulation of capital in the hands of a limited number of proprietors would be greater than the advantages which the whole community

gain from the State owning the land, or at least a share of it. Does Government squander a larger proportion of its rent than private proprietors would do? Does Government apply less of its rent to useful objects than would be so applied by others? Cannot Government afford to be, and is it not likely that Government will be less exacting than private landowners, and leave the fruits of the soil, in place of being garnered into few hands, to be distributed amongst many? If Government does not take a share of the land rent, Government will have to break in further upon the profits of traders and other capitalists, which, equally with land, are a source from which new capital is accumulated. Part ownership by the State differs also from sole State ownership where the whole rent would go to the State. Under the system of part ownership we might still retain our "old nobility" (Bengali nobility—save the mark!) Wealth would continue to accumulate from land and other sources. The leisure and the means would still be left for the cultivation and encouragement of æsthetic studies and pursuit of manly sports. The stock of hereditary legislators need not run down, and prodigals may still have patrimonies to spend. The only difference would be that a part of the rent, instead of the whole, would go to these purposes, and another part to the support of the State—a very proper direction for it to take. In either case a limit should be placed upon the subdivision of estates and tenancies into very small holdings, a system which pre-

vents large formations of capital and leads to a poor condition of agriculture. It is further a question whether a maximum limit ought not likewise to be fixed. If so, it ought to be a high one.

Such are a few of the considerations which strike one from what may be termed the converse view of the land theorem. There is no reason why this view should not be considered along with the other. By disposing of its interest in the land in the whole of India, Government might realize a sum sufficient to extinguish the ordinary public debt, and the railway debt as well; but after thus getting rid of the charge upon the revenues which the debt entails, there would remain a deficiency of revenue, as compared with expenditure, for which it would be necessary to provide by a land tax or general property tax, or by some other means. Some guarantee would also be needed that the landowners would exert themselves to improve their land after it had been given up wholly into their hands; but what guarantee that could be obtained would be deemed adequate?

There are various ways by which redemption of the land in Bengal, by payment of compensation to the landowners, may be carried out. The compensation money may be paid down in cash at once, or by instalments extending over a series of years, or by annuities to be created in favour of the landowners. A good deal must depend on whether all the railways are to be taken over at once, and upon the manner in which it may be

determined to return the railway capital to the shareholders. If all the railways are taken over, the revenues should show a handsome annual surplus—that is, if the shareholders are paid in stock and the revenues are not charged with repayment of the capital. We can either pay off the railway debt by terminable annuities and have the railways as a clear asset, or, converting the terminable annuities into permanent annuities, redeem the land out of surplus revenue, and leave the land as a clear asset. We could not, in the latter case, pay the compensation money at once to the landowners, and terminable annuities would not be likely to suit them any better than they suit the railway shareholders. This, however, is a point regarding which inquiry should be made. Coming to the practical part of the transaction, it may be managed in one of the two following ways. The first way, and the less advisable of the two, is to create annuities for the amount of the compensation money—some 70 to 100 millions sterling—in favour of the English Government on hypothecation to England of the land of the Bengal Province; the money being raised by or through the Home Government, and a trust formed under the care of that Government for the redemption of the amount so raised. This is one way, but there are reasons for doubting whether it would be a wise way. England, it is true, seems ready enough to undertake obligations in other quarters of the globe with the object of strengthening her connection with India, and it may

not appear reasonable that she should stop short when her guarantee is asked to a portion of the obligations of India, specially and amply secured ; but it is not desirable that India should be taught to turn to England to help her out of her financial difficulties. This would neither be fair to England nor good for India. The second way in which the transaction may be managed is by creating annuities in favour of the Bengal landholders themselves, a trust being formed under the English Government for the redemption of the existing Indian debt. This second course has various recommendations. The interest or annuities will not go to swell the bulk of the payments made in England, which would happen if the money were raised there. It will save the necessity of an English guarantee, the assistance of England being required only so far as to act as trustee in order to ensure that the redemption of the existing debt of India shall be faithfully carried out. On political considerations also, the plan of making the Bengal landholders annuitants of the State is to be preferred to the other, for their interests will by this method remain identified with the security and permanency of the Government. The political danger of remodelling the Bengal settlement has been over-rated, but if the danger at all exists, it will be greatly mitigated by dealing with the landholders in the manner proposed.

The annual provision for redemption of the ordinary public debt would form a compulsory charge in the

annual Indian Budget; and the amount so provided would be invested by the English trustees in Government of India securities, by purchase either in the Indian or English market, or applied to payment of loans as they matured, due notice being given to the holders. One trustee to be the Secretary of State for India, the other the Chancellor of the English Exchequer.

Gathering these operations to a point, we arrive at the following final results :—

Railways in possession of Government.

Railway capital converted into permanent annuities,
with the railways as an asset against them.

Ordinary debt of India redeemed.

Land in Bengal redeemed.

Annuities created in favour of Bengal landholders,
with land as an asset.

Immediate large addition to the Indian revenue from
both railways and land.

The public debt of a country is usually regarded as a mortgage upon the whole of its wealth, but here we shall have the entire debt of India represented by special assets, and that without taking account of irrigation works and other property separately belonging to the State. It is hardly possible to imagine a country holding a stronger position than that in which India will then stand; nor can we estimate the relief to England from having all causes for anxiety regarding the solvency of her Indian empire removed.

The converse proposition gives :—

Permanent settlement of land extended to the whole of India.

Ordinary public debt and railway debt paid off and interest charge cancelled.

Deficiency of revenue as compared with remaining charges.

New forms of taxation.

It is very generally assumed by Englishmen that they have done a great deal for the material advancement of India. It is excusable in them to think so; but it is well to be made aware there are others who think differently. An American gentleman of exceptional intelligence and attainments, who has had considerable experience in railways and other undertakings in his own country, referring lately to the condition and progress of India, remarked that what India wanted was movement. Her public men lacked appreciation of her capabilities, which were unlimited. Communication and irrigation were still her greatest needs—cheaper transport and increased production. To the objection that the conditions here and in America were widely different, he replied that Government ought to do what was necessary. It would pay. Reminded that much had already been done by the Government of India, but that the resources of Government were limited, he said his first impression on coming to India was that much had been done, but on

learning more of the country, this impression had changed to a feeling of disappointment that so little had been done. It would pay Government to do a vast deal more. He advocated a commission of practical men to examine the districts not yet touched by railways or supplied with irrigation, and to ascertain what their soil was adapted for, what they were now producing, and to what extent production might be increased either by railways or irrigation. This would supply data either for Government or others to work upon. "Go to the root of the matter. We are now in the dark. The material development of the country should be taken thoroughly in hand." His idea is that England should go more heartily into the business. To use his expression—referring to India—England could "spin her through" in no time, and with scarcely an effort. The question of the material development of India had also a political aspect. Our system of education is creating a class of subjects who will hereafter, without occupation, cause serious trouble. With the extension of commerce, large fields of employment will be opened out to them, land will advance in value and attract their attention more than it does, and various offices will spring up and projects be started, requiring men to fill them and carry them on. This is how Indian affairs are now looked at from an American standpoint.

The views expressed by our American friend call up sundry reflections. With regard to the proposal that

England should spin India through a few of her principal difficulties, it should always be remembered that to teach India to fall back upon England to help her out of financial straits would neither be a real benefit to India nor just to England. It would weaken the sense of responsibility of Indian administrators, and have a tendency to make them less careful in the management of the finances than they are. India can, however, do all that is necessary for herself; but to do this she must realize her own capabilities and requirements. If the resources of the country are properly handled, the Indian Government should be one of the richest Governments, perhaps the richest Government, in the world, and the people of India a most prosperous people, because strongly protected and lightly taxed.

I have endeavoured to lay open some of the more deeply-seated principles of Indian financial administration, and to trace the policy which should issue from them. The only safe procedure is to work from facts to principles, and to let principles rule our action.

NEED OF GREATER LIBERALITY ON THE PART OF THE STATE TOWARDS ITS TENANTS ON TEMPORARILY SETTLED LAND.

ONE thing which should be insisted on when the revenues are in a more flourishing condition is the need of greater liberality on the part of the State landlord towards the tenants of temporarily settled land, not so much with regard to the proportion of the whole produce taken as rent, which appears to be moderate enough, as in the collection of the rent and in improvements. The State should make concessions in bad years, making sure, however, that the years in which it did so were really bad, otherwise its indulgence would but encourage improvidence and sloth. The State should also expend capital, as all good landlords do, on the improvement of its property, and not only by carrying out such large and useful undertakings as railways and canals, but by works of a more local character, such, for instance, as subsoil drainage and wells. Public works yield direct revenue, in the form of railway freights and irrigation cesses, besides indirect revenue in enhanced rent. From

railways and roads it is not the land alone which reaps advantage: all classes benefit from increased facilities of intercourse, by increased security, and by greater economy in administration. In England the farmsteadings are built by the landlord, or an allowance made from the rent if the farmer builds them. The unpretending cottage and farm offices of the Indian ryot do not cost him much, and there may be no immediate need for housing him more comfortably; but one thing the Government of India may do immediately if the revenues will allow—*it can make irrigation free*—free where canals exist and build wells at its own expense where canals cannot be made. In India the cultivator has to pay for what, in other lands, he receives free from Heaven. It is true that he works upon a prolific soil; but it is a soil which is also sometimes barren. And then his landlord is always taking, but returning nothing. In what proportion the cost of farm improvements should be divided, in the case of proprietary settlements, between the subordinate landlord and the State, is a secondary consideration. Government must show the way.

Then, with regard to agricultural progress, the petty experiments now made in this direction are not likely to produce much useful result. They ought to be carried out on a larger scale, but also in a practical, sober way. Why should not half a dozen English or Scotch farmers—honest, steady men, with some scientific knowledge added to their practical experience and common sense—

be employed and distributed amongst the several Provinces? Pay them well, and let them understand that what is wanted is not mere show, but solid results. Prizes are given by land proprietors in England for the best-kept farms, the best corn or turnips, and the best-groomed horses: why should not the Government of India give annual prizes for the best *jowar* or *bajri*, the best-fed bullocks, and the best-dressed fields? A few lakhs given in this way, every year, would be money well spent, looking only to the material results; and the political effect would not be without value, for the effect would be to create a closer association and more active sympathy between governors and governed. A certain sum might be allotted to each District Collector, who should personally inspect the fields and award the prizes. Whether the Collector has now the time—burdened as he is with magisterial work—to make himself thoroughly acquainted with the condition of the tenants and state of agriculture in his district is a matter of some doubt; but, if he has not, the unavoidable conclusion is that the revenue and judicial systems require to be reconstructed. Can this be done without additional expense? is the question. There is little doubt that our scheme of government—and especially the judicial part of it—is cumbrous and expensive, and in some respects ill adapted to a poor and most rustic population. Can it be simplified? Some Provinces support two sets of collectors of rent—the landholders and the Government

collectors. Are both necessary? Whether the Indian land system is to be of the nature of a terminable settlement or of a permanent settlement—and it can be shown that the State is rightfully entitled to a share in the increasing produce of the land, and that for political and fiscal reasons it is undesirable that this condition of things should be altered—whatever the settlement may be, it must extend to the whole of India. That the State has not realized the responsibilities of its position of landlord is all too plain; but had it realized its responsibilities, it could not have discharged them so long as one of the largest Provinces—and the richest—remained a drag upon it.

The necessity of greater liberality on the part of the State landlord has been insisted on. It would also not be out of place to urge a more active sympathy on the part of the landlord's agents—a closer interest in what interests the people, more frequent and more friendly discourse with them about their families, their crops, their trades, their schemes for useful works. Many agents of the State take this interest now: many more would if they had the time. The absence of reciprocal kindly feeling between governors and people—the repression of all spontaneity—the shrivelling of the human side of Native character—is one of the saddest and most portentous of the facts connected with the government of India. Still, some restraint is required. Were Native tendencies allowed to develop freely in their own grooves, as some

writers seem to desire, the result would be—to mention only a few things amongst many—great insecurity of life and property, a very unsatisfactory state of the public health, and the masses would be much less well off in a pecuniary sense than they are. There may have been Akbars and Todurmulls in the olden time; but how many of them? All is not leaden now. Better even with a little hardness that we should draw the people up to our level than allow ourselves sink to theirs. Their love of intrigue and deceit, their innate preference for tortuous courses to straightforward dealing, will for a long time oppose a barrier to community of thought and feeling between them and Englishmen. There are notable exceptions, but they are yet few and far between. If there is some repression now, there is also a greater diffusion of comfort and an aspiration after and appreciation of better things than used to satisfy.

A CONSIDERATION OF THE BEARINGS OF THE BENGAL LAND SETTLEMENT IN RELATION TO THE FINANCES AND GENERAL PROGRESS OF INDIA.

LAND is the one description of property in India which pays heavily to the revenue. This is a home truth, and, like the more obvious facts in Nature—the earth's motion and the persistence of life, for example—makes no impression. If from one part of the land the contribution is deficient, it is evident that the other parts must pay all the more heavily to make up for the shortcoming of this one part. It is not less manifest also that while the public income of India is mainly derived from land, a deficiency in the case of a part of the land—in the case of a whole Province—implies the existence of a weak place in the finance of the State. This will be the more readily realized if we suppose the revenue of India to be mainly derived from Custom duties and the duties to be levied in Bengal at only one-half the rates charged to other Provinces. The consequence to the other Provinces of the shortcoming in the amount contributed by the land in Bengal to the whole land revenue of the country,

the substantive part of the public income, is to cause the cost of governing the country to fall with undue pressure upon them; in other words, they pay more than the proportion fairly payable by them of the military expenditure, of the cost of civil establishments, of the interest on the public debt, and of the outlay on public works. If the other Provinces paid no more land revenue, in proportion to the area of their land, than Bengal, the government of the country could not be carried on, however extensive the reductions which, without impairing the efficiency of the administration or imperilling the safety of the country, it might be found possible to effect. And when all practicable reductions have been carried out, the inequality in the adjustment of the public burdens will remain as great as before. The land assessments in other parts of India may not yet have been forced beyond reasonable rates, although with respect to one or two districts in the Bombay Presidency this may be open to question. Generally speaking, the rates are, for ordinary seasons, not excessive. This circumstance, however, furnishes no justification for releasing Bengal from the liability to bear an equal share of the expense of governing the country.

Because all the Provinces, excepting one, pay no more than enough, that is no reason why that one, which happens also to be naturally the most fertile, should pay a good deal less than enough. Besides, there are other public objects for which money is required, as well as

for the ordinary annual expenditure. Who can doubt that the security of the country would be greatly increased by the construction of suitable fortifications at the principal seaports and on some of the land frontiers, or that the prosperity of the country would be advanced by the extinction of the public debt? India is a country which ought to have no debt, and in which the great landowner, the community, acting through its agent the Government, should be in a position to provide from its rents all the outlay necessary for the improvement no less than for the protection of its magnificent estate. But how can the community afford to develop its estate unless all its tenants pay for improvements? Unopened districts must remain unproductive: the Settlement bars the way against all progress.

It is needless to do more than refer very briefly to some of the remaining bearings of the Settlement, such as its effect on commercial industry and on the cost of some of the first necessities of life to the lower orders of the people. It is but fair that the trading and banking classes should pay some portion of the expenses of government in consideration of the freedom and security assured to them in the pursuit of their respective callings; and it is not unreasonable that the body of the population should contribute something—in each single instance a small something, but in the aggregate a large sum—for the protection afforded them; but to allow the drag to bear too heavily upon the wheels of commerce,

on the free action of which the whole movement of the country and particularly the improvement of the land depend, would be as unwise as it would be reprehensible to heighten the intensity of the struggle for existence of those who can now earn barely sufficient to support life.

Nor can we here bestow more than a passing notice upon the position of the Settlement as it affects and is affected by the altered relations between gold and silver. This monetary disturbance, it may be hoped, will be but of temporary duration, but in the meantime a heavy extra charge is thrown upon the country, which must be defrayed somehow. The future likewise must be kept in view. Leaving out of calculation the accidents of famine and war, complete immunity from which we cannot expect, the cost of administration will increase with the more complex organization and growing requirements of a higher civilization. How are the heavier demands upon the exchequer to be met? By raising the land assessment in the other Provinces still higher? By enhanced direct taxation in other forms? By making the struggle for life more difficult than it is to those who already find it hard to live? Oppressive land assessments and burdensome taxation in other shapes mean popular distress, disaffection, and unrest. They mean retrogression instead of progress, a strangled commerce and general poverty in place of wealth. Is it better to face these things, or to face such opposition as remodeling the Settlement may evoke?

The bearings and consequences of the Settlement being such as have been described, it is reasonable to inquire whether they fulfil the purpose for which the Settlement was made. The proclamations of Lord Cornwallis which declare the land assessment in Bengal to be fixed in perpetuity, also declare that this is done for the fulfilment of certain public objects, foremost amongst them being the increase of the commerce and wealth of the country and the promotion of the ease and happiness of the people. How do the results which we have just been considering conform with these conditions? It may be said that the non-fulfilment of the conditions of the Settlement is becoming an oft-repeated tale, but it is a tale of much meaning, which cannot be narrated too often or too plainly until some way is discovered of making the Settlement satisfy the purpose it was created to serve. The non-fulfilment of that purpose is owing partly to the laches of the zemindars, for which they cannot be exonerated from responsibility, although their obligations might have been brought home to them earlier; partly to the fact that the conditions would have been exceedingly difficult of fulfilment even if the zemindars had exerted themselves to carry them out, which they have not done. In the position in which Bengal now stands to the rest of India, the conditions never can be fulfilled. This, it may be replied, is no fault of Bengal. Neither is it any fault of the other Provinces; but on them fall the con-

sequences. Left at the mercy of the once unsettled and martial races inhabiting the Deccan and Northern India, land tenures in Bengal would not have been worth much. For the security of Bengal, and also for other reasons, but mainly for the safety and peace of Bengal, the other Provinces were conquered and with it incorporated into one empire. They are now paying, and for a considerable time have been paying, an undue proportion of the standing expenditure of the country, and have had to bear likewise the charge arising from outlay incurred on special objects, such as works intended to increase commerce, improve the land, and to relieve or prevent famines—Bengal famines as well as their own. The money required for these objects has been provided out of revenue drawn from, and by contracting liabilities the charge for which is thrown upon, the rest of India. The money already expended in the shape of capital, out of revenue and from loans, as well as in payment of interest, would, if reckoned up, amount to a heavy sum. Is Bengal to share the benefits conferred without paying any portion of the outlay incurred to secure them? India might with equal reason be required to pay the principal part of the charge for interest on the public debt of Great Britain, and to furnish in addition the means to defray the cost of famines in Ireland.

A few other fundamental conditions are embodied in the Bengal Land Settlement as conceived and promulgated by the Marquis Cornwallis. One is the condition

that the zemindars shall exact no payment from the ryots beyond the rent. Other cesses besides the rent, it is certain, are exacted, and it is equally certain that the exaction is a distinct violation of the terms of the Settlement. This violation is in itself sufficient to render the Settlement in a legal sense null and void. Are the obligations to be binding on one side only? Assuming even that those provisions in the Settlement contract which we designate obligations or conditions, are to be construed as merely the intentions of the founder, the declaration of these intentions in the contract is sufficient warrant for carrying them out. The declaration of a definite purpose has, in a transaction such as this, all the force of law. The Settlement is a legal contract in the high political sense in which a Government confides that which belonged to the community to the keeping of a particular class for the clearly expressed purpose of promoting the public welfare. Judge the Settlement by the principles set forth in the edict upon which it is based: we ask no more. Bring it now into conformity with those principles: the country can have justice done to it by nothing less.

THE PERMANENT SETTLEMENT OF THE LAND IN BENGAL: ITS ORIGIN AND PURPOSE.

WAS the Bengal Settlement intended to be permanent?

I answer, Yes, it was intended to be permanent; but it was also intended that certain public objects should be fulfilled by it which have not been fulfilled. That, for the attainment of those objects, the land revenue of the Bengal Province was fixed in perpetuity, no one who has read the words of the Cornwallis Regulations will deny. Regulation I., of 1st May, 1793, says: "In the original Regulations for the decennial settlement of the public revenues of Bengal, Behar, and Orissa, passed for those Provinces respectively, on the 18th September, 1789, the 25th November, 1789, and the 10th February, 1790, it was notified to the proprietors of land, with or on behalf of whom a settlement might be concluded, that the *jumma* assessed upon their lands under those Regulations would be continued after the expiration of the ten years, and remain unalterable for ever, provided such continuance should meet with the approbation of the Honourable Court of Directors for the affairs of the East India Company, and not otherwise.

“The Marquis Cornwallis now notifies to all zemindars, independent talukdars, and other actual proprietors of land, paying revenue to Government, in the Provinces of Bengal, Behar, and Orissa, that he has been empowered by the Honourable Court of Directors for the affairs of the East India Company, to declare the *jumma*, which has been or may be assessed upon their lands under the Regulations above-named, fixed for ever.

“The Governor-General in Council accordingly declares that no alteration will be made in the assessment which they have respectively engaged to pay, but that they and their heirs and lawful successors will be allowed to hold their estates at such assessment for ever.”

The same expression, “to them and their heirs and lawful successors for ever,” recurs in subsequent regulations. It is sufficiently clear, therefore, that the Settlement was intended to be on the basis of a fixed assessment in perpetuity.

Has the purpose of Lord Cornwallis in making the Settlement, or have the obligations which he attached to it, been fulfilled ?

To this I as unhesitatingly answer, No.

The Regulation already quoted, after reciting that as it was well known to the zemindars and to the inhabitants of Bengal, Behar, and Orissa in general, that from the earliest times the public assessment upon the lands had never been fixed, but that, “according to established usage and custom, the rulers of those Provinces had from

time to time demanded an increase of assessment, that frequent investigations had to be made to ascertain the actual produce of their estates, and that it had been the practice to deprive them of the management of their lands, and either to let them in farm, or to appoint officers on the part of Government to collect the assessment immediately from the ryots," goes on to say: "The Honourable Court of Directors, considering these usages and measures to be detrimental to the prosperity of the country, have, *with a view to promote the future ease and happiness of the people*, authorized the foregoing declarations."

Again, "*The Governor-General in Council trusts that the proprietors of land, sensible of the benefits conferred upon them, . . . will exert themselves in the cultivation of their lands.*"

Regulation II. of 1793 says: "In the British territories in Bengal, the greater part of the materials required for the numerous valuable manufactures, and most of the other principal articles of export, are the produce of the lands;—*it follows that the commerce, and consequently the wealth of the country, must increase in proportion to the extension of its agriculture.* But it is not for commercial purposes alone that the encouragement of agriculture is essential to the wealth of these Provinces. The Hindoos, who form the body of the people, are compelled, by the dictates of religion, to depend solely on the produce of the lands for subsistence. . . . The extensive

failure or destruction of the crops that occasionally arises from drought or inundation is, in consequence, invariably followed by famine, the ravages of which are felt chiefly by the cultivators of the soil and the manufacturers, from whose labours the country derives both its subsistence and wealth. Experience having evinced that adequate supplies of grain are not obtainable from abroad in seasons of scarcity, the country must necessarily continue subject to these calamities *until the proprietors and cultivators of the lands shall have the means of increasing the number of the reservoirs, embankments, and other artificial works*, by which to a great degree the untimely cessation of the periodical rains may be provided against, and the lands protected from inundation; and as a necessary consequence, the stock of grain in the country at large shall always be sufficient to supply those occasional but less extensive deficiencies in the annual produce which may be expected to occur notwithstanding the adoption of the above precaution to obviate them. *To effect these improvements in agriculture, which must necessarily be followed by the increase of every article of produce, has accordingly been one of the primary objects to which the attention of the British Administration has been directed in its arrangements for the internal government of these Provinces. As being the two fundamental measures essential to the attainment of it, the property in the soil has been declared to be vested in the landholders, and the revenue payable to Government from each estate*

has been fixed for ever. *These measures have at once rendered it the interest of the proprietors to improve their estates, and given them the means of raising the funds necessary for that purpose.* The property in the soil was never before formally declared to be vested in the landholders, nor were they allowed to transfer such rights as they did possess, or raise money upon the credit of their tenures, without the previous sanction of Government."

Will any one assert that the purposes and obligations of the Settlement as herein set forth have been fulfilled? Had Lord Cornwallis to meet to-day, as the Queen's representative, the men with whom he made the Settlement, he would address them thus: "You have not performed your part of the bargain; the State has done what you have failed to do. Your lands have not improved in value or productiveness through any efforts of your own, and you have done nothing to mitigate or avert famines in any appreciable degree. The State has still to bear the cost of these, as it has to bear the cost of those works by which famines may be prevented or their dread consequences arrested, and by which also the value of the land has been enhanced. The object of the Settlement was to promote the ease and happiness 'of the people;' to increase the commerce and wealth 'of the country'—not alone the ease and happiness or the wealth of a particular class. The land was committed to you as a trust subject to certain obligations. How have those obligations been discharged? They have fallen on the State,

which has had to undertake what you have failed in. Whether your failure is attributable to your inability to do what was expected of you, or to wilful omission, matters not so far as the State and the interests of the people whom it represents are concerned; the State has to bear the cost and therefore must resume the land."

The reasons here adduced for a reconsideration of the terms of the Settlement are, it will be observed, entirely independent of those based on the diminished value of money—and, consequently, of the fixed rental payable to Government—at the present time as compared with what they were in 1793; and they take no account of the altered conditions of the country now contrasted with what they were when the Settlement was made. Both these parts of the subject I shall revert to further on.

So far our way seems clear. Lord Cornwallis would regard the matter as a non-fulfilment of contract. Whether the failure arose from inability on the part of the zemindars to carry out their part of the engagement, or from their wilful neglect to do so, he would consider as of very secondary importance, the State being the loser in either case. Here, however, we reach the most intricate part of the problem—the great practical difficulty which Government will have to face and overcome in dealing with the zemindars. The farmers of revenue who were created landed proprietors in 1793 are not the owners of the land now; in very few cases probably are their heirs or lineal descendants in possession. Much of

the land—perhaps most of it—has changed hands over and over again since the first Settlement was made. Many of the present holders are *bond fide* purchasers for value given: they bought on the faith of the Settlement being, what it professed to be, a settlement in perpetuity: of the obligations attaching to it they may have never heard; those obligations have been tacitly allowed by succeeding rulers to remain dormant and inoperative, and have thus practically come to be regarded as non-existent. How is the present Government of India to deal with holders in this position? They must either be bought out altogether, or such compensation as they may be entitled to offered to them before any additional contribution can be demanded.

The natural solution of these difficulties, the reconciliation of those diverse and conflicting interests, lies in some arrangement, some compromise, which, without doing violence to the rights of either, shall secure to both parties to the Settlement contract what is their due. Both have claims; both are entitled to benefit by the increasing productiveness of the land.

Some compulsion will be necessary, but let it be applied with a due regard to the interests of holders. It has been said that Government may safely pursue any course of policy which it may choose to adopt with respect to the land without endangering the safety of the State through the opposition which such policy might occasion; but the Government of India, we may be sure,

will disdain to enforce any measure not just in itself against a weak race because that race can offer but a feeble resistance. Let the policy be based on a fair and equitable consideration of the claims of all parties, and it will carry its own justification.

Had the British Possessions in India never extended beyond the limits to which they were confined in the time of Cornwallis, it is unlikely that even then the Settlement could have been preserved intact. The revenue would have been unequal to the heavy charge which would have been necessary for the maintenance of a military force of sufficient strength to protect Bengal against the more warlike races of Upper India, aided as they most probably would have been, had they not come under our sway, by some other European nation. Rightly or wrongly, however, it was considered necessary for the security of the country to bring those races under our rule; but it does not at all follow that they should be oppressed for the especial behoof of a part, and that a small one, of the population of Bengal. Nor should a less contribution have been expected from Bengal than from the other Presidencies of Madras and Bombay from the time when the three were incorporated into one empire, the safety and prosperity of which it became the common interest to promote. If the conditions of the settlement of the land in Bengal ever were difficult of fulfilment, they are impossible of fulfilment now. No class benefited more by the suppression of the Mutiny than the

landholders of Bengal; yet, while the public debt and consequent burden on the revenues were nearly doubled by that event, the landholders pay no more now than they did a century ago. They pay no fair share of the cost of the large standing army which India requires, and, as already stated, they have contributed nothing for the public works which Government has carried out and continues to carry out for the improvement of agriculture and commerce, and for the prevention of famines. For what is past it is to be feared there is no remedy, but it is clearly time to look to the future before the now future becomes the present. New works are being constructed, and others are contemplated for Bengal, the effect of which will be to raise the value of labour and of rent still higher than it is, making the redemption of the land more costly as time progresses. The natural rise in the price of labour and in rent produced by other causes will be accelerated by the works referred to, and concurrently with the influences thus in operation of a natural and special character, the depreciation of India's silver currency is rendering still more valueless than before the scant modicum of rent payable to Government.

In carrying out the works of public utility, which in India are thrown on the hands of the Government, it is necessary for the prevention of financial embarrassment to provide for their yielding a return at least commensurate with the charge for interest on the capital expended upon them. This return does not always come in the

form of direct revenue from the works themselves, as Government has seen to be the case with railways, and still more so with some of its irrigation works; yet while those works are undoubtedly productive of many general advantages to all classes of the people, they confer a special benefit on the landholders by enhancing the value of the land. To the land, therefore, Government must look for the return which the works themselves fail to produce. The other Provinces of India, having terminable settlements, do return some equivalent for the large sums expended on works of public improvement, but Bengal does not, a position for which clearly there can be no justification; and over and beyond all these considerations calling for a revision of the terms of the Bengal Settlement, the new policy inaugurated for the relief of famines of itself renders necessary the adoption of a new policy also with regard to the land. Famine is a calamity which should be provided for by taxation; but if this course is to be pursued, the other Provinces may well turn to Bengal, and require that if they are to assist her in her adversity, she shall bear with them her fair share of the State burdens in her prosperity. To be called upon to defray the cost of their own famines would hardly be acceptable to the zemindars, yet, under present circumstances, there would be nothing unreasonable in the demand. Their reply would be that they suffer enough already by the diminution of their rents; but to this again it may be answered that their loss would be

of a much more serious and more permanent character did their estates become depopulated, and such a result has only been prevented by the exertions of Government and with the aid of money drawn from the rest of India. Nothing can appear more inappropriate, to any one acquainted with the obligations laid on the zemindars by the terms of the Cornwallis Settlement, than the praise lavishly bestowed upon them for the paltry sums which they expend on works of a public character. A few thousands—very rarely a few lakhs—are given in this way by men who we know have pocketed many millions at the expense of the country.

To reason on this question from English analogy would be useless and unprofitable, and I have not attempted to do so. The relative conditions in the two countries are totally dissimilar, and a course of action which may be proper for the one may not be equally applicable to the other. The land question in India must be settled on its own merits.

In a work published not very long ago in Calcutta, bearing the title of *The Zemindary Settlement of Bengal*, the author, who withholds his name, has collated a mass of evidence on land tenure, from which he draws these conclusions: first, that the framers of the Bengal Land Settlement intended that the rent payable by the ryots to the zemindars should be fixed in perpetuity, as well as the share of the rent payable by the latter to the State; second, that the ryots were the real proprietors

of the land at the date of the Settlement. And he proposes that the ryots shall now be converted into peasant proprietors, the State furnishing the means to enable them to buy their holdings from the zemindars. The money so provided is to be repaid by the new proprietors within a certain number of years.

There is no doubt that at the time when the Settlement was instituted, the ryots possessed certain hereditary rights, which it was intended should be preserved to them; but, like the other intentions of the Settlement, this one also has been lost sight of. But although the ancient rights of the ryot were not to be taken from him, it nowhere appears that his rent was never to be raised after 1793, nor is it anywhere shown that, anterior to that time, rents were immutably fixed. The State originally took one-half share of the gross produce. That was a definite proportion, but it was a proportion the magnitude of which increased with the improvement of the land, and of which the exchangeable value fluctuated from year to year before that value came to be expressed in money. After the assessment was rated in money, we find State *abwabs* imposed in addition to the *assul jumma*, whenever it was necessary to bring up the assessment to the sum which would have been paid under the old system. Regarding those authorized *abwabs*, Warren Hastings wrote, in July, 1786:—

“The ryots will not venture to refuse to pay the *established due to the Circar or Government*. Custom

is a law whose obligation operates in their own defence, nor have they any idea of disputing it; they consider it as a species of decree from fate. But as the value of money in proportion to its plenty must have decreased in India, as well as in Europe, so it has been found that the ryots of a village and of a whole district could pay a greater revenue than that originally settled by custom. Hence arose the oppressive catalogue of *abwabs*, or special additional assessments by Government. On this head Mr. Grant has given us much useful light. The *abwabs*, or successive additional taxes, make regular heads in the accounts of every village and district; nor are the *abwabs*, established openly by Government, of that oppressive nature which Mr. Francis in his ingenious Minutes has supposed.

“The sources of real oppression are in secret *abwabs*, or unavowed taxes, which the great farmer or zemindar imposes at will on the ryots, and of which we have such cruel examples in the investigation at Rungporc. Here, again, we see the great advantage of being able to examine the revenue system, and to trace back oppression to its source, according to the thread and light of established usage and ancient accounts.

“A clear principle is ascertained. It is, fortunately, the check against the oppression of the ryot or peasant, and the bulwark against corruption in the officers of Government. If, for example, an additional revenue is imposed upon the ryot, it cannot be imposed secretly;

it must be by *abwab*, or additional tax, which must appear in the accounts in every village, pergunnah, or zemindar, and be recorded, in some shape, in various Native accounts of the revenue for the year."

Again, Sir John Shore (in June, 1789):—

"The *assul jumma*, under the Mogul rule, was at long intervals increased in total amount for each zemindary, so as to give the Sovereign the advantages arising from extended cultivation and increased population. This increase made no alteration in the rates upon ryots.

"But the *abwab* soubadary, or viceregal imposts, which constitute the increase since 1728, had a contrary tendency, for they enhanced the rates. They were in general levied upon the standard assessment in certain proportions to its amount, and the zemindars who paid them were authorized to collect them from the ryots in the same proportions to their respective quotas of rent.

"An enhancement in the rates of taxation may be defended on the grounds of the increase of commerce and increase of specie between the time of Tury Mull and the administration of Jaffier Khan.

"My objection to the principle of the soubadary imposts have a reference to the circumstances under which they were established. If the rates in the *lukseem* of Tury Mull with respect to the ryots had not been previously augmented by impositions, separate and distinct from those of the soubahs, perhaps the best possible mode of obtaining an increase would be by demanding

it in certain proportions to the standard, with a due regard to the degree of improvement in the country."

The permanent Settlement enacted that all assessments on the land should be consolidated into a single rent charge, to be entered in the ryot's *pottah*, and all exactions beyond the sum there stated were declared to be illegal. Regulation VIII. of 1793 declares:—

"The impositions upon the ryots under the denominations of *abwab*, *mahtoot*, and other appellations, from their number and uncertainty having become intricate to adjust, and a source of oppression to the ryots, all proprietors of land and dependent talukdars shall revise the same in concert with the ryots, and consolidate the whole with the *assul* in one specific sum.

"In large zemindaries or estates the proprietors are to commence this simplification of the rents of their ryots in the pergunnahs where the impositions are most numerous, and to proceed in it gradually till completed, but so that it be effected for the whole of their lands by the end of the Bengal year 1198, in Bengal districts, and of the Fusli and Willaity year 1198, in the Behar and Orissa districts, these being the periods fixed for the delivery of *pottahs*, as hereafter specified.

"No actual proprietor of land or dependent talukdar, or farmer of land of whatever description, shall impose any new *abwab* or *mahtoot* upon the ryots, under any pretence whatever. Every exaction of this nature shall be punished by a penalty equal to three times the amount

imposed; and if, at any future period, it be discovered that new *abwab* or *mahtoot* have been imposed, the person imposing the same shall be liable to this penalty for the entire period of such impositions."

That the rent payable by the ryot was not intended to be perpetually fixed is proved by Regulation XLIV. of 1793, which limits the ryot's lease to a term of ten years. The ryots, feeling that they had a right of perpetual possession, naturally declined to accept *pottahs* for a limited term, but their objections to doing so had reference to the infringement of their occupancy rights, and not to the revision of the rent. The argument that the rent payable by the ryot was liable to no increase is refuted also by the terms of the engagement between Government and the zemindars, found in Regulation I. of 1793; for, assuming the zemindars to have done all that was expected of them under the Settlement, how were they to obtain a return for their exertions and outlay of capital if not from an enhancement of rent? The rent was intended to be regulated by the customary *pergunnah* rate. What that rate is has never been exactly stated, but obviously it was not intended to remain for ever the *pergunnah* rate of 1793. The basis of enhancement of the ryot's rent has in fact never been properly defined up to the present day. It is, however, clear from the Regulations referred to, that the power of enhancement was not left entirely in the hands of the zemindar. Government reserved the right to intervene for the pro-

tection of the ryot. The grounds upon which this reservation was made are explained in a despatch from the Court of Directors to Lord Cornwallis :—" Our interposition where necessary seems also to be clearly consistent with the practice of the Mogul Government, under which it appeared to be a general maxim that the immediate cultivator of the soil should not be dispossessed of the land he occupied. This necessarily supposes that there were some measures and limits by which the rent could be defined, and that it was not left to the arbitrary determination of the zemindar, for otherwise such a rule would be nugatory." The despatch does not say that there shall be no enhancement of rent, but that the zemindar shall not be sole judge as to what the enhancement shall be. The only way of determining the rent fairly chargeable to the ryot, at the present time, appears to be by re-settlement. Having already considered the consequences of the alienation of the land in Bengal to the zemindars, as affecting the other Provinces and interests of the empire, it is only necessary to say here that, although a larger number of persons would have participated in the increase of the rent, had the rent due by the ryots been fixed in perpetuity, the consequences to the interests of the country generally would be the same in the latter as they are in the former case.

The contention that, previous to the Settlement, the ryots were the only proprietors of land, is no more susceptible of proof than the other. " On the threshold,"

the author says (Chapter II.), "we meet an inquiry as to whether the State was not the proprietor of the land. Good authorities answer that, according to the law and constitution of India at the time of the acquisition of the *dewanny* of Bengal by the East India Company, the State was not the proprietor; the Sovereign's right was limited to a share of the produce of the soil, and the State's ordinary demand on the ryot was fixed by custom. This answer accords with what was the state of things in other countries, where the primitive usages and institutions respecting real property were precisely the same as in India. The reason of the State's existence is the security of individual rights and of private property; and it would have been strange if the State (among the millions of its subjects) had been the sole proprietor of the land, though originally it was reclaimed from waste by individuals, each family for itself, and though it was more generally distributed than other kinds of property." The position before the Settlement was this,—the State and the ryot were co-sharers in the produce, the State's share being collected and passed on to Government by the zemindar. The State's share was a fixed proportion, but variable in quantity as well as in value. This clearly indicates joint ownership, and there can be no more reasonable source of revenue for a State than the hire of that which has been provided by Nature, and is the creation of no man's industry.

When the land has been cultivated, then he who has

tilled it—who has expended his labour upon it—acquires an interest in it; but the land itself is a gratuitous gift to the community which first settles upon it. This gift has in India been transmitted through the various stages through which society has passed, from the community in embryo—the family—to the aggregation of small communities composing the State. In addition to this hereditary right of property in land, resting, in India, in the community, that portion of the increase of the rent which is termed the “unearned increment” also belongs to the community, since it arises from the progress which society is enabled to make by virtue of the protection secured to it, for which the whole community pays. Where, as in India, the community also expends capital out of the common funds for the improvement of the land, the land becomes more than ever the property of the State. It might have been well for them if all nations had retained this public interest in the land. Whether in a country such as England, where land has risen very high in value, it would be worth while now to buy back the rights which have been surrendered, may be open to doubt; and the necessity for doing so will not occur so long as England can raise all she wants in the way of revenue from other sources. In India there is no other source of public income which can be substituted for the land revenue; nor is there any occasion to consider the advisability of a change—the right to a share of the rent of the land being acknow-

ledged by the people to be, as it is in fact, the natural heritage of the State. The only question calling for settlement, then, is how to adjust the State share of the rent so that it shall be drawn equally from all the land.

To make the ryots sole proprietors of the land in Bengal would be to perpetuate the existing difficulty in a new form. The ryots can be turned into peasant proprietors without surrender of the proprietary rights of the State. This kind of proprietorship is entirely unknown to the countries of Europe. Were the State to dispose of its rights in Bengal, other provinces would have to be similarly dealt with. The financial results of such a measure will be shown in a succeeding paper. The objections to it are :

(1.) Other forms of direct taxation would have to take the place of the land revenue, which is an unobjectionable source of income and the natural right of the State.

(2.) The community would not only be imposing upon itself burdens in new shapes, but would be depriving itself of its share of the increase of rent arising from improvements carried out with public money, and also of its share of the increase resulting from the growing wealth and general progress of society.

(3.) The ryot has no claim, either hereditary or acquired, to the whole rent, and were there no other objections to surrendering to him the Government share, it is exceedingly doubtful whether his intelligence

is such as to enable him to apply his new acquisition aright. The effect of throwing the whole rent into his hands would be more likely to encourage him in improvidence and to enrich the money-lender than to bring advantage to the ryot or profit to the State.

The revenue systems and conditions of land tenure in Europe and in India are totally different in character. In Europe the landholder takes the whole rent. In India the practice was to divide the produce between ryots and the State. The practice now, where the proprietary settlements exist, is that Government and the landholder divide a certain proportion of the produce between them—a proportion, let us suppose, which approximately represents the rent—leaving the rest to the ryot. In Bengal the Government share is fixed: that of the landholder is not; he takes all he can. Two parties now share in the rent; and, looking to the nature of their rights as well as to the fact that the ryot also can claim hereditary rights, it seems desirable and not unfair that the demand of the landholder should be defined. The only use of a landholder is to improve the land and collect the rent. If he does not improve the land, then a fixed sum should be ample recompense for his other duty. The ryot and the State are the two great improvers of land in India; and the community and the ryot ought to share the result of improvements between them. As a collector of rent on a fixed income, the landholder may continue to fill an important place

in the social fabric and exert a beneficent influence, wherever it is necessary to retain him. Government has, however, rent collectors of its own, and where the services of the landlord are not required, the village headman can well supply his place as a leader of the people and connecting-link between them and Government. The revenue and land systems of India are the results of a natural growth, are in accordance with abstract right, and are peculiarly well adapted to the position of that country. The chief thing to be seen to is that, in their operation, no injustice is wrought. It is waste of time attempting to reconstruct them upon European models.

The following extract, showing the way in which Austria dealt with her landlords, is nevertheless instructive:—

“After describing the change in land tenures effected by the land laws of 1848-49 (see Appendix XXIII., para. 12), Mr. (now Lord) Lytton continued—

“The manner in which this change was effected was by compensation from the State to the great proprietors for the pecuniary value of the feudal right of which the State then deprived them. The compensation was fixed and provided for in the following way:—

“A commission was appointed by the State for the re-valuation of all the properties on which the above-mentioned change of tenure was to be carried out. In the composition of this commission all the great proprietors were fully represented.

“The commission having calculated the pecuniary value of the feudal rights enjoyed by each proprietor, and the consequent compensation due to each proprietor for the abolition of those

rights, presented to the Government its estimate of the total amount.

"From this estimated total, the Government cancelled one-third; two-thirds remained to be provided for. The amount represented by these two-thirds the State undertook to pay in 5 per cent. bonds, the whole debt being redeemable in forty years by annual drawings at par. To carry out this engagement, therefore, it was necessary to provide not only for the annual interest on the debt, but also for its redemption by means of a sinking fund within forty years.

"One-third of the amount necessary for this purpose is provided for by a tax levied exclusively on the new peasant proprietors, and regarded as the price payable by them to the State for the immense advantage which they have derived from the legislation of 1848. The remaining one-third is assessed as a sur-tax on the local taxation of each Province, and annually voted as part of the local budget by each of the Provincial Diets."

Some of the notes quoted from Mr. Austin's *Lectures on Jurisprudence* may also be of value in assisting to a correct interpretation of the intentions expressed in the Settlement contract:—

"The discovery of the law which the lawgiver intended to establish is the object of genuine interpretation; or (changing the phrase), its object is the discovery of the intention with which he constructed the statute, or of the sense which he attached to the words wherein the statute is expressed.

"It may happen that the author of a statute, when he is making the statute, conceives and expresses exactly the intention with which he is making it, but conceives imperfectly and confusedly the end which determines him to make it.

"Now, since he conceives its scope inadequately and indistinctly, he scarcely pursues its scope with logical completeness, or he scarcely adheres to its scope with logical consistency. Consequently, though he conceives and expresses exactly the intention with which he is making it, the statute, in respect of

its reason, is defective or excessive. Some class of cases, which the reason of the statute embraces, is not embraced by the statute itself; or the statute itself embraces some class of cases which a logical adherence to its reason would determine its author to exclude from it.

"But, in pursuance of a power which often is exercised by judges (and, where they are subordinate to the State, with its express or tacit authority), the judge who finds that a statute is thus defective or excessive, usually fills the chasm or cuts away the excrescence.

"In order to the accomplishment of the end for which the statute was established, the judge completes or corrects the faulty or exorbitant intention with which it was actually made. He enlarges the defective or reduces the excessive statute, and adjusts it to the reach of its ground. For (1) he applies it to a case of a class which it surely does not embrace, but to which its reason or scope should have made the lawgiver extend it; or (2) he withholds it from a case of a class which it embraces indisputably, but which its reason or scope should have made the lawgiver exclude from it.

"Now, according to a notion or phrase which is current with writers on law, the judge who thus enlarges or thus reduces the statute, "interprets the statute by its reason;" or his extension or restriction of the defective or excessive statute is "extensive or restrictive interpretation *ex ratione legis*." His adjustment, however, of the statute to the reach or extent of its ground, is a palpable act of judicial legislation, and is not interpretation or construction (in the proper acceptance of the term). The discovery of the intention with which the statute was made is the object of genuine interpretation; and of the various clues to the actual intention of the lawgiver, the reason of the statute is one."

Although the author of the *Zemindari Settlement* has gone a little astray in his reasoning, the work contains much useful information, the collection of which must have cost a vast deal of labour.

THE SOLUTION OF THE PROBLEM.

THE objections advanced against a revision of the Bengal Settlement resolve themselves into a doubt and a difficulty—a doubt as to whether it would not be immoral to interfere with the present operation of the Settlement, and the difficulty of disentangling the ramifications which have their origin in sub-infeudation. With regard to the doubt, it will be clearly enough seen, from what has been already said, on which side the immorality will rest; whether on the side of letting things stand as they are, or on that of equitable consideration and adjustment of all interests of which cognizance is taken in the original compact, as well as, where deemed just, of all rights which have sprung out of the abuses fostered under it. The three parties recognized by the Settlement, whose interests have to be considered, are:—

- (1.) The country.
- (2.) The ryots.
- (3.) The zemindars.

As to the difficulty, if sub-infeudation presents a formidable difficulty, it is also one which, when investigated, demonstrates very clearly the necessity for putting an

end to the unfathomable waste of resources of which the practice of sub-infeudation has been and continues to be the cause. Neither in principle nor in effect is there any difference between a policy which taxes the body of the people for the support of a limited class of home producers, and the system under which a limited class in Bengal—limited when compared with the whole population of India, or even of Bengal alone—is exempted, at the expense of the rest of the country, from bearing its share of the charges which all others are compelled to pay. There is indeed this difference—and it tells against the Bengal landowners—that whereas the community incurs no liability on behalf of industries supported by protective duties, it has undertaken heavy liabilities for improvement of the property of the landholders; and further, that whereas manufacturers are as a rule industrious and enterprising, the landholders as a rule certainly are not. The industrious members of the population associated with the land, the ryots, have to give up the last penny which can be extracted from them; they do not participate in the subsidy which the country pays. As the exceptional profits of the protected industry, of which it has robbed the revenue, are dissipated amongst the increasing number attracted to it, so the profits of the land have been divided amongst an ever-extending class of sub-holders. The rent of the land is frittered away; capital is withdrawn from the land, not expended upon it. Sub-infeudation as it now exists in Bengal is

an evil which must have been got rid of in any case and in spite of every difficulty. But what is to be done with the multitude of holders and subholders who will have to be bought off? It will not be a very large multitude, relatively speaking: if all bundled out of the way, they number less than 250,000 in a population of 63,000,000—we might have said of 250,000,000. Many will be found to have no beneficial interest in the land, to be already mere annuitants, to whom it can make no difference whether they receive their income from the land or from Government; they would probably prefer that it came from Government, as it would then be regarded as more secure, and the arrangement would save trouble and some expense. If they have a preference, they have no right to have one. They should be cut off from the land. The best of the landholders still possessing a beneficial interest in the soil should be retained; but where many successive holders come between Government and the ryot, even where they possess a beneficial interest, some must be compelled to give way. If the present waste is not to be perpetuated, one landholder only must intervene between the cultivator and the supreme land-owner,—the State. Likewise it may be expedient, where the tenures have been broken up into very minute subdivisions, that they should be consolidated into larger ones; but the consolidation, supposing it to be expedient, would require to be effected gradually, and the limit fixed should be a low one. Moderately small estates—not too

small for a comfortable subsistence—have many advantages. There is not the same objection to small estates as to small farms. Holders of very minute parcels of land would probably be well satisfied to become State annuitants. Some may prefer to receive cash: by those who have fallen into the grip of the money-lender, a ready money payment would be welcomed as a God-given deliverance. The effect of these arrangements, in the course of a generation or so, will no doubt be to cause the Bengalis to seek other fields of enterprise, and it will do them good. There is too great a tendency in Bengal, it is well known, to depend on the Government for an easily gotten livelihood, and the Permanent Settlement encourages this disposition. The Bengalis must be taught that they cannot be permitted, either by direct or indirect means, to fatten on the earnings of the rest of the country, but on the fruits of their own exertions alone. Agriculture is the grand industry of India, and in India there are still extensive regions of neglected virgin soil which the touch of enterprise would quicken into boundless fertility. To such districts Young Bengal might carry its energies and capital with profit to itself and advantage to the country. All the assistance the State need render, or can be expected to render, is to provide highways of communication, and grant settlements for lengthened periods on very low rents. Settlements in unopened districts, on favourable terms, may be offered now; but if there are no roads or railways,

what is the use? Lay down lines of communication; population will come; and, by-and-bye, both land revenue and traffic will increase. The necessity for adopting this course must soon have come in any case, and irrespective altogether of the urgent need which exists for a reform of the land tenures of the Bengal Province. Bengal, fertile province though it be, could not much longer have supplied sustenance to the swarm of intermediate holders which has settled upon it, layer above layer, and is devouring the resources which should become reproductive, either by being returned to the land, or by means of their application through the State to the promotion of public objects.

Where the landholders are also the cultivators—peasant proprietors, in other words, paying a moderate hire to the community for that which primarily belongs to it—matters will be simplified, as a fresh settlement can be made directly with them. Uniformity of settlement may be desirable, but is not necessary. The settlement may be made in some cases with the zemindar, in others with the ryot, and in others with the village community, partaking, according to circumstances, of the proprietary system of the North-West Provinces, the ryotwari systems of Madras and Bombay, and the village settlements which appear to answer so well in the Punjab. The cultivators will be greatly benefited, it may be anticipated, by the closer relations into which they will be brought with the Government, and the original intentions

of the Settlement with respect to them will be fulfilled. Greater privileges cannot, however, be granted to the Bengal ryots than those enjoyed by the same class in the other Provinces of India. The bulk of the agricultural population will be left undisturbed, but the practice of sub-letting, which appears to obtain amongst the ryots also, should be summarily stopped. After a little time very small tenancies might be thrown into larger ones.

The experience of Ireland and of some countries of Continental Europe appears to show that exceedingly small farms, unless held direct from Government and the rent regulated otherwise than by competition, do more to keep the land and its tenants poor than small estates. The extreme in either direction it would be well to avoid in both cases. It is indeed an unsettled question whether the union of capital with labour does not, in agricultural industry, contribute more to a country's strength and prosperity than a state of the industry where the two are separated, and where the immense reserve of force residing in the rural population, who consist for the most part of a degraded race of helots, is only partially called forth. In India we must adapt our plans to the genius of the people and circumstances by which we find them surrounded; making sure that we are proceeding on sound and equitable principles, and keeping before us political and fiscal necessities. Subdivision of the land is, however, an entirely separate question. Sub-infeuda-

tion is the evil first to be got rid of. I am able to indicate only the general principles on which an urgently-called-for reform should be conducted. The Rent Commission, which was lately appointed in Calcutta, and may be still sitting there, should be able to throw considerable light on the sub-infeudation entanglement. It would be interesting also to know the date when each of the present holders came into possession, what increase of rent has since taken place, and whether it is to be traced to the public confidence inspired by a strong and a just administration (which costs money to maintain), to the development of commerce which this sense of security and the works of improvement carried out at the expense of the State have promoted, or whether the increase is due to special improvements effected by the landholder. On these points also the Commission may be able to gather some useful information. The principle of a measure having for its object the redemption of the land of Bengal will not be affected by the existence of sub-infeudation. To such an extent as the zemindars have bargained away their rights under the Settlement they will receive so much less than they would otherwise do of the compensation to be paid, and those to whom they have sold, so much more. In determining the amount of compensation money, three considerations are to be borne in mind:—

First, that the country has to bear the cost of bringing Bengal into the Indian federation, and that it has already paid much to make up for the shortcomings of Bengal.

Second, that the Settlement has not fulfilled the first purpose of its existence—the promotion of the public welfare.

Third, that the Settlement has been broken by illegal exactions. These the State would be justified in sweeping away without compensation.

As to the best method of, in future, settling the State share of the rent, it may be remarked that when the settlement is for a terminal period of, say, twenty or thirty years, at the expiration of which it may be revised, a fixed money rent, assessed at a moderate rate, should not be productive of any greater inconvenience than attaches more or less to contracts of all kinds. Over the average of years, the assessment should neither prove oppressive to the ryot, if he is of provident habits, which experience alone can teach him, nor to the landholder, nor unfair to the State. The other two ways of settling the rent are to estimate it on the prices of certain articles of produce from year to year, somewhat after the manner adopted in Scotland, or to take a proportion of the lump value of the whole produce; but there are objections to both these plans. The objection to the first is that the fluctuations in seasons as well as in prices would have to be taken into account. In years of dearth or of short crops, the high prices prevailing would be a very unfair basis on which to settle the rent to be paid, and, under either arrangement, a dangerous power would be thrown into the hands of the subordinate agents of Government,

through whom, in a great measure, the amount of the rent would have to be determined. The ryot would probably find it less easy to satisfy the demands made upon him under either of these plans than to accommodate himself to the rigidity of a money assessment. The great consideration is that the assessment shall be a reasonable one.

REDEMPTION OF THE LAND IN BENGAL: WAYS AND MEANS.

THERE remains to be considered only the question of finance.

The annual deficiency in the land revenue received from Bengal is about five millions, and there are certain districts in the North-West and Madras Provinces, also under a permanent settlement, which may probably count for two millions more; so that there are in all seven millions a year to be added to the Indian revenue.

The capital value of the interest to be acquired may be estimated at 100 to 125 millions; and to redeem this capital, or debt equivalent to it, within a reasonable time, there will be needed an annual surplus revenue of five to six millions. How is this surplus to be obtained?

At present there is a surplus and there is no surplus. What excess there would be of revenue over ordinary charges, had the Affghan War not to be provided for, has been absorbed by the expenses of the war. When the war is over and the cost paid, the surplus will be available for other purposes—should it then con-

tinue to exist; but we may any day lose a million or two in opium or exchange. It is no use being oversanguine; nor, on the other hand, ought we to take too gloomy a view. On the whole, perhaps, a safe course will be to reckon on half of the annual surplus of ordinary revenue over ordinary expenditure—say on a sum of two millions. We must then endeavour to find three or four millions more to add to this sum. The famine insurance fund also ought not to be lost sight of; but redemption of the land in Bengal will place Government in a position of greater strength to face emergencies than any other reserve could do. Having redeemed the land, Government will be able to redeem the public debt; and possibly to do both these things together.

Holders of land are not entitled to more than the capitalized value of their estates. The average value may safely be assumed not to exceed eighteen years' purchase. Taking the rate of interest at which Government could raise the necessary capital as $4\frac{1}{2}$ per cent., the difference, being gain, would amount to £500,000 a year. But there will be other gains. An equal sum at least should be saved immediately, and more hereafter, by economies in collection, release of encumbered estates, the removal of a large number of useless intermediate holders, the abolition of illegal exactions; in fine, by the conservation of resources which are now dissipated. A re-survey as well as a re-settlement will probably be necessary, but both may be carried out together, and

the redemption scheme applied as they proceed. It may then be seen what improvements have been effected by the landholders, and how far the enhanced value of their land is due to the security afforded them at considerable cost to the State and to the expenditure of State money on public works. The question whether an abatement should be made on this account from the sum to be paid as compensation, and whether the abatement should be one-third, one-fourth, one-fifth, or one-sixth, or less, must be left for future decision; but it should be borne in mind that those Provinces and interests which have had to submit to heavier burdens than should have been thrown upon them in years past, will also have to find the compensation money which has now to be paid. It will be well to remember also that where ryots are charged excessive rents, reductions will have to be made; but in those cases where the exactions are illegal, less compensation will be paid to the zemindars. From sweeping away illegal exactions and intermediate holders, the gain will not be small. This clearance alone should be worth £1,000,000 to £2,000,000 a year, but we shall estimate the whole gain at the modest sum of £1,000,000 before stated, and, leaving further gains for future uses, will take this sum to be the contribution which the land will furnish annually towards its own redemption. The reductions being carried out in public works establishments should afford further help. As the railways are to be managed

through the agency of companies, the reason for maintaining an organization on the former expensive scale has ceased. The only justification for the existence of such an organization was that it should be prepared, not only to construct, but to manage large imperial undertakings. For ordinary works, ordinary men and an ordinary establishment will suffice. The best demonstration of the practicability of these reductions is that they must be made. By the acquisition of the trunk lines of railway a gain of £1,000,000 a year at the least may be reckoned upon. This measure is called for in the public interest and apart from financial necessity, owing to the position in which Government has become placed with respect to railway enterprise—having saddled itself with all the unprofitable lines. The plan adopted in the case of the East Indian Railway as a means of obviating the difficulty presented by the unskilfulness of Government management will doubtless be extended to the other lines. The management of the existing State Railways which are mostly branches of the trunk lines, through the same agency as the latter, follows as a corollary to the acquisition of the main lines on this plan.

The reduction in permanent military establishments will also come to our aid. By changes in the localization of the forces and creation of reserves, the standing army, it is possible, may be reduced; and some saving should also be obtained from a more equitable distribution of the expenditure on European troops between

India and England. The question whether any grave danger is to be apprehended from training large and increasing numbers of the population to the use of arms, through the means of reserve forces, this is not the place to discuss. The burden of military expenditure presses heavily upon the country, and can never be reduced—as it ought to be reduced—while so large a proportion of our whole force is required to look after the armies of separate States—to keep the keepers of security in territory which cannot be assailed excepting by us or through us. Indian princes must be satisfied to hold commissions in the imperial army of India—to become the flower of Indian nobility. Exerting an elevating and refining influence upon Indian society, and seeking to ameliorate the condition of the people under them, they will rejoice in the prosperity of their country, and, if the need arise, fight in her defence. Their main object in life will cease to be mere personal ostentation: their animating impulse and their pride will be to promote the welfare of the country as a whole. For the achievement of this consolidation they will see that English direction is at present needed and may continue to be necessary for a considerable time to come. It is useless now forecasting the Constitution which may be hereafter substituted for the existing Government. The Indian Constitution must be built up gradually as circumstances and events are developed. It is not impossible, however, that when India has advanced so far

in knowledge as to be competent to form a correct judgment as to what is best for her own interests, nobles and people alike will prefer an English ruler to one chosen from amongst themselves. In the meantime, England must discharge the obligations of her trust without fear or favour or selfish aim. Well, say we get £2,000,000 a year from reductions in military expenditure. We shall also have the revenue from the trades and professions tax, which, if the tax is applied, as it ought to be, with exactness, to all large property-holders and to the Bengal zemindars so long as the Permanent Settlement exists, should be not less than £1,000,000 a year; but were it to yield no more than £50,000 a year, the tax should be imposed if only to prove that no subjects of the empire who can afford to pay are exempted from the liability—privilege it should termed—of contributing to its support. As a matter of policy, fundholders might be suffered to escape; as a matter of equity, no. If the agricultural and poorer classes are scrupulously excluded, the tax will fall only on those who have not hitherto borne their fair share of taxation, and who very well know that they ought to pay. The imperial cess imposed on the land when the licence tax was last introduced, has since been abolished. Local cesses for purely local objects only, such as education and roads, should be levied in addition to the regular rent.

Taking now the surplus of two millions, and adding to it our gains, let us see how we stand.

| | |
|--|-------------------|
| Surplus | £2,000,000 |
| Land | 1,000,000 |
| Reductions in ordinary public works and in establishments maintained for extraordinary works | 1,000,000 |
| Railways | 1,000,000 |
| Army reductions | 1,500,000 |
| Licence and Income Tax | 1,000,000 |
| Total | £7,500,000 |
| Less Custom Duties remitted—say | 800,000 |
| | <u>£6,700,000</u> |

which is rather more than we require. Should the expenses of the Affghan War, or such portion of them as may fall upon India, amount to a larger sum than the revenue of two or three years will suffice to meet, they must be funded and redeemed with the rest of the debt. The outlay upon this war is not money thrown away for a mere temporary end. It has been the means of increasing permanently the security of India, and of bringing under British influence and sway a hardy race, who may yet become one of the strongest bulwarks of the Indian empire. Afghanistan is, moreover, a country where Englishmen—not to mention Bengalis and Parsees—can settle without dread of their offspring degenerating and dying out.* As to the annual expense of governing Afghanistan, of the capacities of that country it may be premature yet to speak, but there is some

* The same remark would apply, with even greater force, to Cashmir.

reason to believe that, if its revenues are honestly collected and not misapplied, it may be able to pay the cost of its own government. At all events, the deficiency will not be great, and India can well be required to meet it, considering the advantages she will have gained. In the meantime, what has still to be done for the tranquilization of Affghanistan should be done thoroughly and once for all, even at some extra expense.

Some part of the cost of guarding the empire the separate and subordinate States within India should pay. With a few accoutred retainers only to support for the amusement of their lords, in place of armies, the people of those States will be the better able to join with others in paying some fair proportion of the cost of maintaining the empire, as a return for the peace and security which they enjoy. What they now pay, through the medium of Custom duties, is infinitesimal and not worth notice. The time will come for the abolition of those duties, and with it the opportunity for settling the mutual obligations between the inhabitants of Native States and the rest of the people of India.

One point more deserves notice. It would be disappointing to find, after the redemption had been completed, that, owing to appreciation of the value of silver, the land redeemed was not worth the ransom paid; that the monetary obligations which the country had undertaken had risen in value more than the land. The safest way for a country is not to be committed heavily

to monetary obligations. In the present case, as it is proposed to pay off existing debt to an extent equal to the amount of the annuities or other fresh debt contracted for payment of the compensation money, India will be in the same position with regard to money liabilities at the end of the redemption as before. It will also be kept in view that, while the price of land will rise with a fall in the value of money, or fall with a rise, the demand for land is ever increasing at the same time that its quantity is fixed. This will tend to counteract the effect of an appreciation of currency, and superadds an independent advance to any rise from depreciation.

TRANSFORMATION OF INDIA'S GOLD DEBT INTO SILVER ANNUITIES PAYABLE IN INDIA.

WAYS and means being found, their manipulation is, comparatively speaking, an easy matter. As the re-settlement proceeds, annuities will be issued or a cash payment made according to the requirement of each case. The provision, however, to be made from revenue, for redemption, must not be dependent on a fluctuating surplus—on what there may be to spare at the end of the year after everything else has been provided for. No Viceroy and no Finance Minister shall be exposed to temptation. A certain minimum sum—to be increased as the redemption progresses — must, by an unalterable law, be set aside in the Budget of each year for the purpose of redemption. This sum shall be handed over to trustees, whose duty it shall be to apply it either to redemption of the land directly, or to the repayment of existing debt against liabilities incurred for the redemption of land. The compensation money paid yearly until redemption is complete may be expected to amount to more than the sum set aside from revenue: hence the

necessity for incurring fresh liabilities. Up to a certain point our liabilities will increase, but after reaching that point they will rapidly diminish. It is necessary first to obtain a pivot on which the redemption project may turn. After that is secured, public obligations will recede to their old sum, and we shall have the land to the good. Against the new liabilities contracted old debt will have to be paid off, and it will therefore be necessary to decide whether silver debt shall be liquidated or gold debt. It is impossible to say what amount of existing debt will have to be cancelled until we know how much of the compensation money will be paid in annuities—either terminable or permanent annuities—and how much in cash. If cash and annuities are paid in the proportion of one-fourth to three-fourths, 70 to 100 millions of the existing debt will have to be discharged.

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|---|---------------------|
| The ordinary silver debt of India amounts to | £77,000,000 |
| The ordinary gold debt to | 60,000,000 |
| And the railway debt, which is wholly a gold debt, to | 97,000,000 |
| Total | <u>£234,000,000</u> |
| The annual interest on the silver debt amounts to | £3,300,000 |
| The annual interest on the gold debt (railway debt included) amounts to | £7,300,000 |

When the additional land revenue falls in we shall have our surplus and seven millions besides, less interest disbursements and such sums as it may be considered proper to devote to land improvement. Are we to

convert this money into gold and pay off gold debt in England, or simply content ourselves with paying off rupee loans in India? The latter plan would certainly save trouble. But there are objections to the payment of rupee debt. The loans issued in India are mostly filled up with English capital, it is true, but the interest upon them is payable in the current coin of the Indian realm, and some portion of each finds its way into the hands of native investors, who thereby acquire a tangible interest in the stability of the Government. Slender as the ties forming this interest may be, and wide apart, their influence is not to be slightly regarded, and it is desirable that their number should be increased rather than that those already formed should be severed. So long as the amount borrowed in India is not excessive, the capital market will not be denuded of supplies; and in recommending that future loans for reproductive works should be raised in India, the Home Committee on Public Works appear to have given judicious advice. Rupee debt should not be paid off until every means of paying gold debt has first been tried, and has failed. What means shall be tried? The Government of India already finds it a hard task to pay the interest on its gold loans: how is it to pay the principal? If, on the other hand, some of the principal could be paid off, the interest payments would be permanently lightened. It is difficult to see how the desired object can be accomplished at a single financial *coup*, excepting with the aid

of Turkey. If Turkish dominion in Asia is to be consolidated and strengthened, Turkey will require money—for railways through Asia Minor, for the restoration of her depreciated paper currency, and various other purposes. This money will have to be found by England, either singly or conjointly with some other European Power; if singly, so much the better. Silver will answer the purpose of Turkey quite as well as anything else; and India, instead of remitting the annual payment for the redemption of her debt to London, can send the silver to Turkey, England at the same time using the money raised for Turkey for the liquidation of Indian gold loans.

The amount required by Turkey—or to be given to Turkey, for she requires more than she is likely at present to get—may be less than the amount which India will have to redeem; but admitting this, a considerable reduction of India's gold liabilities ought, by means of the adjustment now suggested, to be practicable; and we must be satisfied to achieve the possible. The first step would be to start a Turkish State Bank, which should advance the capital required under a State guarantee. A bank is the most efficient agency for controlling pecuniary transactions. The English officials sent to Turkey may be first-rate administrators, and at the same time entertain somewhat loose notions regarding the value of money. Whether the Imperial Ottoman Bank already in existence is equal to the undertaking,

those only who are acquainted with its constitution and management can judge. It and the Rothschilds together—the latter stirred not less by patriotic impulse than by the prospect of overflowing gain—should be able to make the scheme a success. There can be no doubt as to the profitable result of opening up such a fertile region as Asia Minor is known to be. It may be objected that the effect of this plan is to shift the burden of converting silver into gold from India to Turkey; but it would be more correct to say that the effect will be to break up the burden—not to move it bodily on to the shoulders of Turkey. Before Turkey shall come to view a superabundance of silver with anxiety, the influx, if directed through proper channels, will have been productive of great benefit to her. These measures might assist to restore silver to its old value. The accumulation in the Bank of France is the only supply which now threatens to prolong the depression in this metal. India and Asiatic Turkey can never be developed with gold, if they have to bring the gold from abroad. Silver is more readily procurable, and in those countries retains all its virtue as a powerful civilizing and developing agent. It is a pity, under the circumstances, that it should be allowed to congest and become worthless.

The payment of a portion—probably a large portion—of the capital of the East Indian Railway in annuities will assist the redemption of debt, but this redemption will extend over a very long period. A scheme is wanted

which shall take earlier effect on both the aggregate sum of the liability and the annual gold payments. The English guarantee, as regards India, is dispensed with. It should not be resorted to if we can manage without it, and apparently we can do so. Of course, if the plan here designed for the cancellation of gold debt should not be deemed worth entertaining, rupee loans can be paid off with great facility. Upon the results of the redemption of the land in Bengal, and in other places where it has been alienated, we need not here speculate, but they cannot fail to be beneficial. Nor is it necessary to dilate upon the advantage of converting gold debt into annuities specially charged on the land, if haply this can be accomplished. An expansion of income and reduction of unproductive expenditure will follow these measures. In a few years Government may find itself enabled to undertake many things of which it can now only meditate on the impossibility. Both land and railways are expanding sources of revenue, and both may be stimulated. Not the least of the advantages will be that by the extension of the same land system to the whole of India, all parts will be placed in the same relation to the collective body, the State; and Government, which is the custodian of the interests of that body, will be in a position to be equally liberal and equally exacting with all.

FREE TRADE IN LAND AND REPAYMENT OF THE PUBLIC DEBT OF INDIA.

THE alternative course is to cast the land off; to dispose of the Government fee simple in all the Provinces, giving the landholders, in the first instance, the option of becoming the purchasers. This solution may not prove so satisfactory as the other, but an examination of it may serve to shed new light on a very difficult problem, and for this reason alone the proposal may be worth consideration. By selling the land, Government would be disposing of part, and that the chief part, of the property of the country; and the proceeds could be applied only to the liquidation of the liabilities of the country. Government might in this manner accomplish a very sensible reduction of the public debt—might even be able to wipe out the debt altogether, and have something to the good besides. In the Budget accounts of last year the nett land revenue is stated to be £18,600,000 for the whole of India. Supposing the price obtained to be no more than ten years' purchase, the sale would realize £186,000,000. This sum would be sufficient to pay off three-fourths of the public debt. The debt

of India now amounts to about £240,000,000, the ordinary debt and railway debt being taken together. If the land realized so much as fifteen years' purchase, a considerable surplus would remain over after liquidation of the debt.

The contemplation of such a possibility opens up considerations of far-reaching and absorbing interest. The extinction of the Indian debt would remove all apprehension regarding the ultimate liability of England for its repayment; and we cannot wholly dismiss from our minds this contingent liability which may some day fall on our own country, notwithstanding that it has been more than once expressly declared in Parliament that England accepts no liability of the kind. I am not aware in what form the Indian loan bonds issued in England are drawn, but they probably state that the money borrowed is charged on the revenues of India exclusively. The rupee bonds issued in India do not specify this condition, nor do the *Gazette* notifications, inviting tenders for loans, make any reference to it. The fact that the rupee stock is issued *in* India might be accepted as evidence that the liability rests on India alone; but the contract is between the lender and the Secretary of State, who is a member of the Home Government. The words on the loan obligations are: "The Governor-General of India in Council does hereby acknowledge to have received . . . as a loan to the Secretary of State in Council of India, and does hereby promise, for and on

behalf of the said Secretary of State in Council, to repay the said loan” Is not India a constituent part of the British empire, and is not its financial policy dictated by the Home Ministry? Is not also the Indian Budget laid annually before both Houses of Parliament for their approval or disapproval? and do not these circumstances imply a moral, if not legal, responsibility? On the other hand, however, turning to India, would it be wise, on political grounds, were it in our power to pay off the debt, to remove one of our holds on the allegiance of the people, between whom and ourselves the bonds of union are already indeed too few? Through the medium of the public debt, numbers of the Natives of India, and those the better classes, whose disaffection would be most dangerous, unquestionably do acquire a very tangible interest in the stability of English rule. The exact proportions of the debt held by Europeans and Natives respectively it is impossible to ascertain; but judging from the published returns of Government stock presented for payment of interest at the various treasuries throughout India, the aggregate Native holding must be about £20,000,000 sterling; and evidence is not wanting that Government of India securities are steadily growing in favour with the well-to-do Natives throughout the country generally—in the provincial districts and towns as well as in the three chief cities of the Presidencies.

Next, as to the effect on the revenue. Ordinary debt and railway debt being paid off, there would be no in-

terest charge, and the railway traffic receipts would undergo reduction to the extent of working expenses only. Something also would be saved in Government establishments by handing over the assessment and collection of the land rent entirely to the landlords; but Government must for political reasons retain the greater portion of its officers who now perform those duties. Assume that in a yearly expenditure of £3,000,000, a third is saved. From purchase of the railways, and reductions in public works and military expenditure, £3,500,000 more may be counted on. We take then, as before, our surplus of

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|-----------------------------------|-------------|
| | £2,000,000 |
| and add | |
| Savings in interest | £11,000,000 |
| Railways and reductions | 4,500,000 |
| | <hr/> |
| | £17,500,000 |
| | <hr/> |

But we give up our land revenue, which amounts to £21,500,000 a year, so that the result would be a deficit of £4,000,000. To this would further have to be added a famine insurance provision of, say, £1,000,000 a year, bringing up the deficiency to £5,000,000. To meet this deficiency we should have to impose a tax on the land rent. Estimating the whole land rent of India at £100,000,000 a year, a 5 per cent. tax would produce the amount required.

The tax of 5 per cent. would not be a fixed tax. At some future time, with the increase of the incomes de-

rived from land, it may be possible to raise as much public revenue by a 2 per cent. tax as can now be raised by a tax of 5 per cent. The revenue tax on incomes from land and the ordinary income tax might then be made one, if so desired. Theoretically there ought to be some difference between the two taxes, corresponding in some degree to the difference between the natures of the respective incomes. The reasons for making such a distinction are specially strong in the case of India, where the improvement of the land is to an exceptional extent attributable to the outlay of State funds. The tax also might have to be raised on occasion as well as lowered; but it would be well to remember that whereas concessions are speedily forgotten, renewed exactions produce fresh irritation. Political conditions must be taken into account. A high tax fixed for a long term of years would be paid more cheerfully than a lower one liable to constant alteration. For this reason, and because the people acknowledge the claim of the State to a portion of the rent of the land, the State's demand is now readily satisfied. There may be a little grumbling, but so long as the land revenue is collected in a different manner and at different seasons from the ordinary income tax, the two classes affected will not grumble together. There is at any rate not the same chance of a combination to resist the demand. But were the taxes to be collected in the same manner and together, both classes might unite, and discontent pervade the country. There is

also another point which must not be lost sight of, and that is the difficulty of ensuring honest assessment and collection. This difficulty was experienced in the case of the existing income or licence tax when the tax was applied to agriculturists and to the lower and less well-informed classes, and it would be enormously increased if the assessment of a tax on rent, varying from year to year or at intervals of a few years each, were substituted for the assessment of the Government share of the rent which is fixed once for all for a period of thirty years. Possibly the difficulty might be obviated to some extent by a very accurate system of registration of rents and assessments and issue of assessment certificates; but after all precautions had been taken there would still, it is to be feared, be great room left for extortion on the part of the assessing and collecting agents.

The above is a possible way of dealing with the Indian land and finance question, but it is attended with certain difficulties and certain dangers. Some of these have been pointed out, and if to levy a general income tax would be a hazardous proceeding, the recovery of the purchase money of the land by annual instalments added to the tax would involve still greater risk. The chances are that Government would never get paid. It is true that if the purchase money were recovered in full—a necessary condition of the success of the scheme—there would be £60,000,000 left available, after redemption of the debt, for the construction of fortifications, railways,

and canals, giving Russia a thrashing, or other useful object, and that the expenditure on public works might not form a charge against revenue for some years—but after? The security of the country depends upon the strength of the State, but if the State disposes of its separate property, can it raise supplies by other means? Is there any necessity for taking that course? What would be the political effect? What would be the material results, as effecting the condition of the land and its occupants, of handing over the cultivators bodily to the landholders? Would the landowners expend money on the improvement of their estates? What about the protection of the tenant? Government must reserve to itself the right to intervene on his behalf, should the necessity arise. Tenants have as much need of protection in India as in England. In India, indeed, the danger is greater of their rights being disregarded, for the farmers there have less chance of making themselves heard. What effect would repayment of the debt have on the financial policy of the Indian Government? Would freedom from the burden of debt act as an encouragement to improvidence? Not necessarily so. With the individual it often happens that he who is most largely involved is also most reckless in adding to his obligations; whereas the man who is free from liabilities has a wholesome dread of incurring any. So it may be with nations, but it may also happen the other way.

Two other plans of equalizing the land revenue may

be shortly noticed. The first is to extend the Permanent Settlement of the land to all the Provinces, the State retaining its share of the rent as that share now stands, and a tax of 5 per cent. being imposed on the incomes of all proprietors, great and small, in consideration of the State giving up its claim to participate in the increase of the future. The landholders of Bengal might well be expected to pay this tax along with their brethren in the other Provinces, having regard to the fact that the improvement of their estates is due more to State protection and State exertions and State money than to anything which they have done. The second of these two plans is to extend the Permanent Settlement to the whole of India, the State retaining its share of the rent as it now stands in all places, excepting where a permanent settlement exists, the State share being raised in those places to the same proportion of the whole rent as the State takes elsewhere. The financial result of the first measure might be expressed somewhat as follows :

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|---|------------|
| Surplus | £2,000,000 |
| Revenue tax of 5 per cent. on £70,000,000 . . . | 3,500,000 |
| Railways and reductions in public works and military expenditure, as before calculated upon . . . | 3,500,000 |
| | <hr/> |
| | £9,000,000 |
| Less Famine Fund provision, say | 1,000,000 |
| | <hr/> |
| Surplus available for repayment of debt and other purposes | £8,000,000 |

In the second case we get—

| | |
|---|-------------|
| Land revenue equalized for all India | £27,000,000 |
| Annual payment on account of compensation to raise rent received from districts under Perma- nent Settlement to the same proportion of whole rent as that received from other parts of India | 5,000,000 |
| | <hr/> |
| | £22,000,000 |
| Present nett revenue from land | 18,600,000 |
| | <hr/> |
| | £3,400,000 |
| Surplus, as before | 2,000,000 |
| Revenue tax of 5 per cent. on £60,000,000 . . . | 3,000,000 |
| Railways and reductions, as before | 3,500,000 |
| | <hr/> |
| | £11,000,000 |
| Less Famine Fund provision | 1,000,000 |
| | <hr/> |
| Surplus available for repayment of debt and other purposes | £10,000,000 |
| | <hr/> |

We could not under any circumstances make a free surrender of the whole of the State's share of the rent, unless, indeed, we chose to raise by direct taxation a sum equal to the present land revenue, say £20,000,000 a year. But the land is the only source whence a sum of that magnitude could be obtained, and as the land already yields the sum required, the only change would be in the mode of collection, which had better perhaps remain undisturbed. May not the wisest course of all be to let the Indian political system in its relation to the land remain what it is—a communal despotism liberally directed?

I have endeavoured to investigate and follow to its ultimate result a second method of dealing with the land difficulty. The difficulty is not one which can be settled off-hand ; it must be turned upside down and inside out ; it must be viewed in every possible aspect, before we can arrive at a final solution. The interests involved are so vast and complicated that the task of reconciling them may well strain the powers of the stoutest intellect ; and it is only by a firm determination to wrestle with and overcome the obstacles to be encountered, that a successful issue can be hoped for. Anything done to dispel the surrounding cloud of error, to lift the truth into the light of day, is a step gained—some advance made towards the final settlement. We are much too prone to strive after, and to waste time in fighting over, matters of secondary importance only, while we leave the essential matter untouched. The chief objects to be accomplished are,—first, an equitable adjustment, as regards the whole of India, of the present fiscal burdens ; and, second, the placing the finances of our Eastern empire on a permanently sound basis. The scheme which most nearly approaches the fulfilment of these requirements is the scheme which should be adopted. A just measure will carry its own vindication.

RECENT FISCAL ADMINISTRATION IN INDIA.

SINCE the time of Mr. Wilson, no Finance Minister has grasped as he did the principles of Indian finance. All that is best in the utterances of his successors is but the echo of what he said. The extrication of the finances from the chaotic insolvency in which they were left by the Mutiny, the introduction of a sound system of note currency, and the settlement of the relations between Government and the Presidency banks were no small achievements for a single year; but even more important than these measures were the broad lines of policy which he laid down, and on which he would have worked had he lived. After him came Mr. Laing, Sir C. Trevelyan, and Mr. Massey, in the expositions of two of whom at least are to be found traces of a certain originality and breadth of vision. Then follows an unbroken line of financiers chosen from the Indian Civil Service, whose views are mostly colourless. Sir John Strachey may be regarded as being to some extent an exception. His policy has been more or less pronounced, in various ways. His appointment was understood to

have some meaning. When he received the financial portfolio from Sir William Muir, the tenure of office of the latter had not run its natural course. The reason for the change may have been that Sir William Muir had become weary of his work; or some object may have been intended by the Secretary of State's Council, of which Sir John Strachey's brother is an energetic and influential member. Sir William Muir left a surplus. Sir John Strachey has obtained a larger surplus,* after encountering one or two deficits for which he was in no way responsible. He is as little accountable for the surplus, which is mainly due to a recovery of the price of silver and a rise in opium. It is not intended to enter here into the details of the Budget results, and figures will be employed only should their use prove unavoidable; it is proposed rather to discuss measures and principles. The measures with which Sir John Strachey is more particularly identified are the abolition of the duties on Manchester goods imported into India; the removal of an internal Customs line that stretched from one side of India to the other; the equalization of the salt duties; and the revival of the income or licence tax—a tax which, after undergoing various transformations, was dropped by Sir William Muir

* A surplus of ordinary revenue over ordinary expenditure. The cost of the Affghan War must be regarded as an exceptional charge, to be distributed over two or three years. The error made in calculating expenses actually incurred is a separate matter.

during the period of Lord Northbrook's administration. To this list we might add a scheme for the rectification of the Indian exchanges by means of the introduction of a gold currency, which received the support of some at least of the Secretary of State's financial advisers; also an extension of the system of local budgets inaugurated by Mr. Laing. This system has since become known by the appropriate appellation of *Decentralization*.

For the removal of the inland Customs hedge Sir John Strachey deserves nothing but praise. This barrier was the shattered relic of a barbarous age—its utility had ceased, and its preservation served only to perpetuate an unhallowed memory. With this measure is allied the equalization of the salt duties, also a much-needed reform. To the other measures enumerated the same unqualified approval can hardly be extended. In some cases their soundness, in others their expediency, may be doubted. The leading idea of Sir John Strachey's policy is the abolition of the custom duties. This idea, he informs us in his last Budget speech, he has entertained from a very remote period—"before Manchester had herself discovered she was injured by them, and long before Lord Salisbury had proved in his despatches" (in a manner which seems to Sir John Strachey unanswerable) "the serious injury they were inflicting upon this country"—that is, upon India; and he assures us that he would not have accepted his present office if he had not had the opportunity of co-operating with others in

carrying out the convictions of a lifetime.—*Financial Statement of 24th February, 1880.*

The Indian cotton duties have given rise to a good deal of discussion in both England and India. It may at once be conceded that so far as the duties are protective they are indefensible; but, deprived of their protective character, no source of revenue could be more free from objection, or better adapted to India. Had a manufacturing industry not sprung up in India, it is unlikely that any complaint would have been made against them. Lord Northbrook, in framing his Tariff Act, in 1875, endeavoured to save the revenue from them by placing Manchester manufactures and Indian manufactures on the same footing; but his intentions were misconstrued and his plans upset. With less experience of India than Sir John Strachey, but keener perception of the conditions to be dealt with, he saw that if the duties were then to be given up, the only alternative was a resort to wide-reaching direct taxation. Lord Northbrook may have been too unsparing in his denunciation of direct taxation; but his objections apply with peculiar force to taxation of an indiscriminate character, such as that introduced by Sir John Strachey.

It has of course been explained by the present Finance Minister that the licence tax has not been revived to supply the place of the cotton duties, but for a totally different purpose. When, however, revenue is abandoned on the one hand, and new taxes imposed simul-

taneously on the other, it is not illogical to conclude that the sum received from the taxes goes to make up for the income which has been relinquished. That, concurrently, an addition has accrued to the revenue, realized from old sources, is a purely fortuitous occurrence. Nothing will justify the surrender of the Custom duties—of which the duties on cotton goods compose the chief part—until another source of revenue, equally productive and equally inoffensive, has been discovered. Such another source has not yet been found, nor is there any evidence to show that Sir John Strachey had hit upon it when, years gone by, he began to dream of an emancipated Indian commerce. The time has not yet arrived for the abolition of the duties; but it will come. What shall be substituted for them? We shall consider presently. The principal objection to these duties is the political objection—the objection that their retention may tend to diminish the interest which some English constituencies and English Governments feel in the prosperity of India.

Direct taxation was reimposed in India with the object of providing an insurance reserve against famine. The necessity of treating famine expenditure as an ordinary charge against revenue had been recognized by Lord Northbrook's Government. In carrying out this idea, Sir John Strachey marked down two classes as resting under special obligations to find the money required; namely, traders and agriculturists. But the

agricultural classes were already the largest contributors to the revenue, and something should have been done to protect them in consideration of the rent they paid. Not only was the new tax extended to the land; it was applied to temporarily settled land and permanently settled land without distinction. This course the Finance Minister sought to justify by bringing forward a decision of Her Majesty's Government, to the effect that the State had an undoubted right to impose on persons in possession of incomes derived from land, taxation separate and distinct from the ordinary land revenue, in order to meet the growth of the public requirements, local or otherwise.

"The levying of such rates," the Duke of Argyll had written, "upon the holders of land, irrespective of the amount of their land assessment, involves no breach of faith upon the part of the Government, whether as regards holders of permanent or temporary tenures." The rule here laid down is applicable enough to Bengal, where the land is permanently settled, and to the other Provinces also when money is required for local improvements; but it does not hold good in terminably settled Provinces, with respect to imperial demands.

Famine is a calamity which the whole country is interested in averting, and no particular class can be singled out as specially liable to bear the charge. At the same time, all classes are bound to contribute according to their ability to the general revenues. Had Sir John

Strachey based his measure upon this ground, his position would have been unassailable. He would have had on his side, also, the weighty authority of Mr. Wilson. In the only Budget statement which he had the opportunity of delivering, Mr. Wilson said :

“ In selecting new sources of revenue, the Government are very much impressed with the fact that hitherto a large share of the revenue has been derived from land, and that the practice of revising the assessments periodically has at least had the effect of keeping the actual cultivator always at a rack rent. We therefore think that, whatever new taxes we impose, the incidence shall fall mainly upon other classes. There is no doubt that merchants and bankers, and others, can hardly be said to have borne their full share of the burdens of the State heretofore.” And again : “ Whatever we do shall be based upon the strictest equality between class and class, whether Europeans or Natives, whether official or non-official.” All classes who live and prosper under the State should assist to support the State. The British merchant, who is enabled to carry on his business unmolested, should pay for the security which he enjoys, and he would not object to contribute along with others, if asked to do so on proper grounds. He now grumbles because he believes himself to have been cajoled. He asks why he specially should be taxed for the prevention of famine, and the official classes and professional men be exempted. The question is a puzzling one to answer.

He is angry also because the proceeds of the taxes have not been applied to famine purposes.

Some other arguments used by the mercantile community are not equally reasonable. The Calcutta Chamber of Commerce, for instance, maintains that because the finances show a surplus, there is no need of the income tax. This is the argument used by Manchester: "There is a surplus, and therefore there ought to be no duty on Manchester goods." But if all these demands are to be listened to, how is the country to be governed? Other contributors to the revenue may fairly claim a remission of some part of the demands now made upon them when there is a surplus; but the merchants cannot reasonably plead the existence of a surplus as a reason for not taxing them at all. The finances contain many elements of instability; and besides this, there are various uses to which a surplus, when it is secured, may be turned: there is debt to be redeemed, there are fortifications to be built, and railways and canals to be made; and greater leniency is required towards the holders of temporarily settled lands. Any outcry that has been raised against the income and licence taxes has proceeded from the European and Native communities in the large towns, who understand the business of creating a clamour. They have to a great extent the command of the press, and are adepts at the art of getting up memorials. In this way they manage to produce an impression that the tax is obnoxious.

Obnoxious to whom? To those who pay it, who pay in no other way, and who cannot be reached excepting by direct taxation. The rural population has been silent. The Government of India congratulates itself that, in the interior of the country, the tax has been collected with so little trouble. The country people are not clever at combination, and they do not possess any channel through which they can make their opinions known; but depend upon it they have thought a good deal, without perhaps coming to any clear decision in their own minds as to what Government might not have the right to demand, but feeling it was hard that their rent should be raised periodically, and that they should have to pay taxes—local taxes and imperial taxes—besides. As I heard a very eloquent lady speaker observe at a woman's suffrage meeting lately, silence must not be taken in their case—in either case—as evidence of assent so much as of coercion. The licence tax should never have been extended to the temporarily settled Provinces. Mr. Wilson's income tax was applied to the land, but in such a manner that—beginning at a high minimum of income—the holders of temporarily settled land would be left practically free, while permanently settled land would be brought in. Such at least was his intention. "We are aware," he said, "that in practice very few zemindars in the North-West will pay income tax, and when we consider their relation to the land, and that their payments are always subject to revision, we think

their exemption, falling under a fair and general rule, is not to be regretted." Sir John Strachey's tax, on the other hand, descended to incomes of Rs.100 a year—a bare subsistence. It is almost incredible that an opinion such as that expressed in the following sentences should issue from one who has had so much experience of India. The extract is from Sir John Strachey's speech introducing a Bill to apply the licence tax to the North-West Provinces, the Punjab and Oudh (all under terminable settlement):—

"As to the objection which has been raised in some quarters, that this tax will fall mainly on the poor, I content myself with simply denying the fact. It will touch no person whose nett earnings are less than Rs. 100 a year; and if anybody asserts that in the Provinces to which this Bill refers any man is poor who possesses an income of Rs. 100 a year, he is ignorant of the facts. Such a man is not poor; he is a man far removed above poverty, and well able to pay his contribution towards ensuring the country against famine. To say that our new taxation will fall upon the poor is either an error or a calumny."

In support of this opinion Sir John Strachey has quoted a statement made by Sir Richard Temple to a similar effect. I shall not attempt to give an explanation of Sir Richard Temple's reasons for endorsing such an opinion. The Native of India in possession of an income of Rs. 8½ a month has the means to procure coarse grain, salt, and clothing—of the last he wants little—for himself and his family; but he must be considered a poor man, and not a fit subject for direct taxation, which is

no more suited to the poor of India than to the poor of England. The poor of India pay a very heavy duty on salt, and they pay also on their clothing, but the duty on the latter is inappreciable. Even more surprising than Sir John Strachey's declaration regarding the scope of his taxation scheme is his subsequent attempt to justify the measure in its totality, at the very same time that, owing to the adverse criticism it had called forth, he was obliged to amend it. In his last Budget statement he says :

"Considering that precisely the same reasons were given by the Government, and accepted by the Legislature, for imposing fresh taxation on the trading and on the agricultural classes, with the object of protecting the country against the financial consequences of famine, and that special stress was laid upon our desire to make the burden fall with approximate equality on each of these classes, it would be difficult, for the present Government at least, to accept any proposition for treating them differently now. In fact, it would be hardly possible to maintain the cesses on the land, if the tax on trades were abolished. It might be more possible to defend the abolition of the cesses on the land and the maintenance of the tax on trades. But it is needless to discuss such questions. Practically, so far as we are now concerned, these taxes on the agricultural and trading classes stand on the same bases."

At the same sitting of the Council at which this protest as to the uselessness of discussing the question of an alteration of the incidence of the tax was made, a Bill was introduced, removing the tax from agriculturists, and raising the taxable income to Rs.500.

Reference is made by Mr. Fawcett, in his recently

published work on Indian Finance, to the introduction of this tax, and its subsequent amendment—which was not carried so far as he supposes. I have the greatest respect for Mr. Fawcett. He has done much to disseminate sound views on political economy, and especially with regard to Indian financial questions; but, if I mistake not, much of the information which his essays contain has come from the Indian Financial Department and India Office. When he says that the utmost limit of taxation was reached, he hardly goes far enough. The limit was overstepped. Mr. Fawcett trusts too much to hedging in erratic Governments by rules. No rules in the world will keep them right, if they are proceeding on wrong principles. He also, it appears to me, relies too much upon the improvement which may be effected in the state of the finances by reductions in expenditure. All that possibly can be done ought to be done in this direction, but the ordinary expenses of Government are more likely to increase than decrease, if the administration is to be preserved in an efficient state. The only branch in which any considerable saving seems possible is the military expenditure, to which allusion will be made by-and-bye.

The amendment of the licence tax was not carried far enough. The tax ought to have been extended to the richer traders, and to officials and professional men. Sir John Strachey says:

“If it had now been possible to attempt the removal of the

numerous inequalities and anomalies which are inseparable from any such partial system of taxation as that which now exists, this would have been an object of high importance; but the mere extension of taxation to the official and professional classes would clearly be no complete solution of such a problem, although it might be a step towards it."

That is quite true; but the extension to the official and professional classes would have been a considerable step towards a solution, and the other steps could have been taken later. When the licence tax was re-imposed, in 1877, the servants of Government and others dependent upon fixed incomes were exempted from the tax, for the reason, probably, that they suffered most from the depreciation of silver; but it was questionable policy to exclude any class. It might have been better for Government to have taken into separate consideration the adequacy of the remuneration paid to its servants, and to have left other employers to do the same. Government and others have contracted to pay their servants certain amounts of currency, but it is doubtful if they can be held responsible for a fall in the purchasing value of the currency. It might be contended also that, even at their reduced value, the present salaries are sufficiently liberal. Can good men be got at the price? It is not believed that the servants of Government would advance any claim to be treated differently from others in the matter of taxation. They are remunerated according to the value of their services, as other men, and are equally liable to be taxed. It should of course be kept in mind

that the European community pay something to the revenue in the form of Custom duties; but their contribution in this shape is not of sufficient importance to justify their exemption from direct taxation; and when the Custom duties are abolished they will pay absolutely nothing, if not directly taxed. The licence-income tax should not only be extended to the well-to-do traders, bankers, professional men, and Government servants of the higher grades, and assessed upon them as an income tax; it ought also to be applied to fundholders, the zemindars of Bengal, and all other property-holders—the holders of land under terminable settlements only being excluded. Assessed at a moderate percentage rate, and with some degree of exactness, it ought to yield a good round sum. The machinery for its collection already exists. Objections may be made on account of the inquisitorial character of an income tax, but such objections must be set aside. If need be, it may be left to the contributors to make a written declaration on their honour—and *Abrū* is a thing to which the better class of natives attach some value—of the amount of income on which they are liable to pay, until they and the collecting agents become used to each other. There is, however, no danger now of oppression, as the classes to whom the tax will be applicable, after the exclusion of agriculturists and very poor people, have quite sufficient intelligence to take care of themselves. Objections have been made to this tax on the ground that it is of the nature

of "class taxation." The phrase is totally devoid of objectionable signification, used with reference to India. The question to be solved is the equitable distribution of public burdens. Why should there not be class taxation, if that is the only means by which the classes on whom it will fall can be made to contribute to the revenue? Adjusted in the manner above proposed, the tax will extend to all classes, excepting only the holders of land of which the assessment is liable to revision, and the poor. Few will be inclined to find fault with either of these exceptions.

The charge made against Sir John Strachey, that he has not redeemed his pledge with regard to the application of the famine taxes, cannot be sustained. When introducing these taxes, Sir John Strachey explained :

"It is the first intention of the present Government to apply the funds now to be provided for this special purpose—that is, the formation of a famine reserve—strictly to the exclusive objects which they were designed to secure. In such matters, no doubt, Governments cannot fetter their successors, and nothing that we could now say or do would prevent the application of this fund to other purposes. Without thinking of a future far removed from us, events might of course happen which would render it impracticable even for us, who have designed these measures, to maintain our present resolutions."—(*Famine Budget of December, 1877.*)

The events anticipated have occurred. He perhaps ventured too far on a subsequent occasion (*Debate on Northern India Licence Bill, January, 1878*) in stating that "the proceeds of these new taxes will be expended

for the purpose of providing what I have called an insurance against famine, and for no other purpose whatever." But this second declaration must be read in connection with the first. The application of the proceeds of these taxes, along with surplus revenue obtained from other sources, to defrayment of the cost of the Afghan War, was a perfectly lawful appropriation of them. The surplus might have been locked up in the treasury to form a cash insurance fund, or used to buy up Government stock; but in that case debt must have been incurred to pay for the war. The persistent refusal in some quarters to acknowledge the necessity to India of a rectification of her frontiers, and of thrusting out from a neighbouring country a power whose establishment there would have involved her in continual trouble and in a heavy addition to her permanent military establishments, is not more astonishing than the wilful misrepresentation which has attributed the late deficits in the Indian finances to the recklessness and extravagance of a Conservative Ministry. There may have been a little too much of theatrical demonstration about the conduct of the Conservative policy, but the aims were sound; and it is quite certain that until Lord Beaconsfield's Ministry came into office those who directed the affairs of England had not realized either the dangers that threatened her or her imperial power and responsibilities. If the Liberal party and the country now appreciate these things, it is greatly due to the late

Ministry. Holding Liberal views in politics, I have the less hesitation in giving expression to this opinion.

For the equalization of the revenue burdens of India, two measures remain to be carried out in addition to the extension of direct taxation to the classes before indicated, who now escape. Those two measures are:

(1.) That the populations of the separate and so-called independent Native States should pay some portion of the cost of guarding the empire.

(2.) An equal distribution of the land revenue burden.

The peoples of the separate States are now charged with the support of local armies, which perform no service, but which entail upon the Supreme Government the maintenance of a much larger military force and heavier expenditure than would otherwise be necessary. The inhabitants of those States should pay for the protection afforded to them from external aggression. The armies they now maintain are of no benefit to them in any way. The reduction or total abolition of these local forces, or their absorption into the imperial army of India, is a matter for diplomatic negotiation, and could no doubt be arranged. The armies might either be abolished, the princes being left body-guards, and regimental or brigade commands in the imperial army being conferred, according to status, on those of them having military proclivities; or a certain portion of the military forces of the separate States might be amalgamated with the imperial army, and the princes retained

in command of the troops taken over. It must be remembered that India is governed for the benefit of her people, and the native princes are no doubt becoming alive to this truth.

The equal distribution of the land revenue burden can only be accomplished in one of two ways—either by extending the perpetual settlement of the land to the whole of India, or by assimilating the Bengal Land Settlement to the settlements of the other Provinces.

The land question in India differs from the land question in England in this respect, that in India the State is the supreme landowner, and the land rent the principal public revenue. As landowner the State has responsibilities as well as rights; but it cannot discharge its responsibilities unless all the land pays alike.

It is clear enough that the State landlord cannot be so liberal as it ought to be with its other tenants, while those in the largest Province do not pay rent in the same proportion as the rest. It is also apparent that this inequality must be a cause of financial weakness to the State, the principal revenue being, as before stated, the land rents. If Bengal paid in the same proportion as the others, the State might do a great deal more for them in the shape of remissions when needful, and of local improvements, such as wells and drainage. It is even possible that irrigation might be made altogether free. The State landlord in India does not provide farm buildings, or carry out local improvements, in the

same way as land proprietors do in England. The State has not done this in the Provinces which have terminable land settlements, and the zemindars have not done so in Bengal. One of the purposes of the Bengal Land Settlement was the improvement of agriculture and commerce, but the zemindars have done nothing in this direction. Another purpose was the prevention or mitigation of famines; but here again the settlement has failed to serve its object. The zemindars have not expended money on the land for the attainment of this end; they paid no portion of the cost of the famine in their own Province in 1874, and they were exempted from the liability to contribute to the famine reserve which the Government recently determined to create. It is curious, in face of the difficulty which Government has had in forming a famine fund, to reflect that this was one of the purposes of the settlement. Mr. Wilson's view with regard to the Bengal Settlement was that, "so far as the rent of those lands goes, that is fixed and unalterable as long as the conditions are complied with." This is undoubtedly correct; but have the conditions been complied with? And admitting, as is unquestionably the case, that the money rent of the land was fixed, does it follow that the Settlement cannot be brought into conformity with existing circumstances by compensating the landholders? Mr. Wilson had not time to become fully conversant with the conditions of the Settlement or with its bearings, nor had he an

opportunity of seeing the effect of the depreciation of silver on the fixed rent paid to Government. *The Times* suggested, some time ago, a revision of the thirty years settlements of the terminably settled Provinces, as a means of recouping the loss sustained by the Indian Government from the diminution in the value of the silver currency; but *The Times* forgot the existence of the Perpetual Settlement.

This completes the programme for the equalization of revenue burdens.

Sir John Strachey's scheme for averting the loss sustained from the fall in silver was fortunately not carried out. Had it been adopted, the effect on prices, on the Government revenue, and on the peace of the country, would have been disastrous. It only wanted that Sir John Strachey should have been allowed to give practical shape to his long-cherished idea of abolishing the Custom duties before another source of revenue had been found, to complete the catastrophe. It appears that the proposals for a change of currency were disapproved by the independent committee to whom they were submitted in England. It should be known, however, that they had already met with strong disapproval in India.

The main cause of disturbance of the Indian finances—if not also of the silver market—is the Secretary of State's drawings; and the only effectual way of reducing these is by reducing India's gold liabilities, to provide

the interest upon which to a large extent the drafts are drawn. The only way, again, to reduce the gold liabilities, is to find some country in need of silver; to borrow the money which that country requires, in gold, and with the gold to pay off the Indian gold debt, as far as may be practicable, transferring silver to the borrowing country on Indian account. The requisite transfer might be arranged by opening a silver credit with the Bank of France, or the credit might be opened with the Bank of England, the latter being left to settle terms with the Bank of France. By a transaction of this nature, the Bank of France, now burdened with an excessive stock of silver, might be considerably eased. If reforms are to be executed in Turkey—a task which England and India should undertake between them—if Turkey's financial affairs are to be set in order, and her neglected though naturally rich Asiatic Provinces, are to be resuscitated—money will be required for these purposes. The best method of raising the value of silver is by turning it to use. It continues to retain all its value in the East, and many useful things may still be done through its agency in both India and Turkey, which could not be accomplished by means of gold, because there is not gold enough for the purpose.

The reduction of the payments of the Indian Government in England would be further assisted by the more extensive purchase, through local agency in India, of the stores—including railway material—now procured

through the agency of the Secretary of State. Something has been done in this direction, but in a lame half-hearted way. It has long been known in India that the stores bought through the India Office have cost a great deal more than they should have done, and that the freights paid upon them have far exceeded the rates paid by private merchants and shippers. The interests concerned, in England, are probably influential enough to prevent this matter from being taken in hand in a practical and thorough manner.

It is satisfactory to learn from the Indian Finance Minister, that the check placed upon the prosecution of public works is temporary only. Much remains to be done to extend the facilities for bringing produce to the main lines of railway and coast towns. The only danger is that this fresh accession of zeal may carry the Government of India from the extreme of parsimony to the opposite pole of profligacy. The damning characteristic of Indian fiscal policy is its want of continuity and consistency. The ordinary civil and judicial duties of the Government are conducted with ability and smoothness, and even the foreign policy has some sort of cohesion; but so much cannot be said with respect to finance and public works. It is stated that the present suspension is due to the Home Government, but the panic began in India and spread to England. The panic has had the good effect of forcing on reductions in expenditure, which otherwise might have been difficult

to carry into force. With a view to large railway undertakings, huge establishments were formed, but the principal lines of railway, the trunk lines, were not taken over, and the establishments became practically useless, excepting to prey on the treasury.

It is not easy to reconcile the professed eagerness of the Government of India now to push forward the construction of public works with their trifling over the few hundred miles of railway which is to connect Bombay with Rajpootana and the Northern Provinces of India. After twelve years of idling, this unfinished remnant of a trunk line, occurring midway in one of the chief routes of commerce, is to be completed by inserting a narrow gauge connection between two lines of broad gauge. Indian administrators are most able, disinterested, and altogether excellent men, but they are unaccountably deficient in comprehensiveness of grasp and penetration in economical matters. They are emphatically not either political economists or, in the more restricted sphere of the science, financiers.

Public works require to be prosecuted with judgment as well as zeal; and the assignment by the Public Works Committee of a limit to the annual expenditure upon them affords some guarantee that new schemes will not be proceeded with until they have received mature consideration. The sum of £2,500,000, at which the annual outlay has been fixed, is probably as much as can profitably be expended. Against this also has to be set the

famine insurance provision of £1,500,000, temporarily diverted, which is to be applied either to public works or the redemption of debt. The new loan liability to be incurred yearly for works of improvement should not therefore exceed £1,000,000. Indeed, if the Indian Government managed its rents properly, it should hardly have occasion to resort to loans at all: it should be able to provide out of its rents all the money required for the improvement of its estate. For the outlay of State money on public works which improve the land the State should obtain some return. This the State does obtain in those Provinces the land settlements of which are terminable, but not in Bengal. When the State has acquired the right to share in the increase of the rent in Bengal in the same manner as elsewhere, the Custom duties may with safety be abolished, for by their removal commerce would be stimulated and the value of the land improved. With increased commerce, traffic on the railways likewise would increase, and the State should therefore lose no time in obtaining possession of all the trunk lines. By doing so it will secure a revenue which can be collected without producing irritation, and it will be enabled also to prosecute with greater vigour than it is now in the position to do, the extension of the less lucrative branch railways which it has already undertaken.

One word about the form of the Budget accounts: Here again vacillation is apparent. In some years gross receipts from public works are shown as revenue; in

other years nett receipts. Sometimes provincial rates are included; sometimes they are excluded. Under these circumstances comparisons become either fallacious or impossible. The gross receipts and working expenses of railways and irrigation works being given in a separate account, only the nett profit or loss need be brought into the final balance sheet called the Budget. There might likewise be added another account, showing clearly the sources whence the provincial rates and taxes are obtained, if it is necessary to bring these into the imperial Budget; but it might be better to exclude them.

A statement of "Imperial, Provincial, and Local Revenue and Expenditure" accompanies the Budget now, but in a form so complicated that no person unacquainted with the Indian Financial Department's peculiar method of stating things could draw any definite conclusion from it. It deserves to be considered also whether the accounts should not be stated in the currency of India. We might then be able to tell the actual loss by exchange, and whether the gain by exchange, for which credit is taken on the revenue side of the accounts, is real or fictitious. Everybody who consults the Indian accounts is sufficiently acquainted with the Indian unit to understand them; but, if the need exist, an abstract in sterling money can be published in the Parliamentary Blue Book. Other improvements might be made, but these are the changes immediately required to render

the accounts intelligible, and a correct presentment of the financial position.

I sat down to this paper with the determination not to criticise Indian financial proceedings in a captious spirit. If the strictures passed on the Government action in some cases appear severe, I can only regret there should have been occasion for them. I wish to state also that the paper was written before the recent revelation of an error in the Indian estimates, and is not an issue from the agitation which that error has produced.

INDIAN RAILWAYS. PURCHASE OF THE MAIN LINES.

In the year 1869, as a result of some correspondence with the late Sir Henry Durand, one of the noblest among the noble-minded men who have belonged to the Indian Services, I was induced to commit to writing such ideas as occurred to me with reference to a scheme of railway extension which had about that time been resolved upon by the Indian Government. The Government having determined to take the construction and management of all new lines of railway into its own hands, I ventured to suggest that it was desirable Government should at the same time obtain possession of the railways already constructed, for the following reasons :—

First : because all the principal commercial routes had already been occupied, and only feeders of the existing lines were left for Government to construct.

Second : the contracts with the railway companies which owned the main lines provided for the purchase of those lines by Government, and the obvious course for Government to take appeared to be to obtain

possession of the main lines before raising their value against itself by laying on feeders.

Third: a close examination of the railway contracts disclosed the fact that Government was not only bound to pay the guaranteed rate of interest, but was liable also for the capital and debenture debt.

The prices of the various railway stocks in 1869 were as follows:—

| | |
|------------------------------------|-----------------------------|
| East Indian | £107 $\frac{3}{4}$ per £100 |
| Eastern Bengal | 107 $\frac{1}{4}$ ” |
| Great Indian Peninsula | 106 $\frac{1}{2}$ ” |
| Bombay and Central India | 105 $\frac{1}{2}$ ” |
| South of India | 106 ” |
| Madras | 105 $\frac{1}{2}$ ” |
| Scinde | 104 $\frac{1}{2}$ ” |

The prices to-day are these:—

| | |
|---|---------------|
| East Indian (purchased by Government at £125 per £100 stock.) | |
| Eastern Bengal | £140 per £100 |
| Great Indian Peninsula | 127 ” |
| Bombay and Central India | 125 ” |
| Madras | 122 ” |
| South Indian | 125 ” |
| Scinde | 124 ” |

In the month of August, 1870, a despatch was addressed by the Government of India to the Secretary of State for India—the Duke of Argyll at that time held the office—recommending that the question of the acquisition of the railways should be taken into consideration, and setting forth the conditions of purchase reserved by the contracts. The Duke of Argyll does not seem to

have given much heed to this representation. Indeed, if I mistake not, he had, before its arrival, and without consulting the Government of India, undertaken to renew, for a second period of 25 years, the contracts of the Great Indian Peninsula, the Madras, and the Bombay and Central India Railways, surrendering at the same time all claims on account of the debt for guaranteed interest paid by Government, which had accrued against them. The East Indian Railway Company, luckily or unluckily for itself, did not accept the Duke's terms.

The apprehended inefficiency of Government management was doubtless one of the principal objections to the transference of the Indian railways to the State. On this subject I wrote when proposing the purchase :

“We have to consider, however, whether Government can construct railways with success, and manage them when constructed with efficiency. The experiment of the projected State railway between Lahore and Peshawur will furnish practical proof as to whether Government can do this. The present state of the Public Works Department, if we are to form an opinion from public criticisms,—which, however, are often unjust,—is not such as to inspire confidence in its ability to carry out works with economy, completeness, and expedition. But if the department is not now equal to the task, is it not possible to raise it to the required standard of efficiency? In view of the great works contemplated, it seems necessary to so raise it. In view of these great works also it

will be necessary to organize an efficient system of control over the enormous expenditure which they will involve. To recommend the projection of works, to supervise their construction, to maintain the staff on a footing of efficiency, and to control the expenditure, would seem to be duties which should be confided to a special functionary—say, a Minister of Public Works—who, for all money expended on the works, would be accountable to the Minister of Finance; the latter will have sufficiently difficult employment in finding the means for carrying on the works, and in maintaining an equality generally between revenue and expenditure; the most diligent care will be needed to preserve the finances in a state of solvency.”

The Public Works staff was reinforced, a Minister of Public Works was appointed, and an Engineering College established in England; but the main lines of railway were not acquired, and even the construction of new railways was not prosecuted with the vigour which these expensive preparations seemed to foretell. The inactivity with respect to new railways was to some extent due to indecision regarding the question of gauge. Some members of the Government were in favour of broad gauge, some in favour of narrow gauge. Ultimately narrow gauge was adopted, and Government would have nothing else anywhere. As feeders of the trunk lines, narrow gauge railways were exactly what was required, but not as continuations of the trunk lines themselves,

those lines having been built on the broad gauge. The great arterial line connecting Calcutta with Lahore—a broad gauge line—was extended to Peshawur and the north-western frontier on the narrow gauge. This was Government's first essay at construction, and it was unfortunate. After great delay and a good deal of waste, the extension had to be relaid on the same gauge as the rest of the line. A similar error has been committed in the case of the trunk line running from Bombay through Rajpootana to Delhi. From Bombay to a little beyond Ahmedabad the line is built on the broad gauge, it then changes to the narrow gauge, and, on reaching Delhi, meets the East Indian and Punjab Railways, both broad gauge lines. The Bombay and Delhi Railway follows one of the oldest commercial routes in India. It connects Bombay with the rich cities of Rajpootana—the home of the Mawarrees, the largest bankers and traders in Northern and Central India—as well as with the Upper Provinces of India, of which Delhi is the principal piece-goods and bullion market. The impediment offered to the free flow of commerce by the double break of gauge on this main route must be regarded as a most unfortunate interruption. With the exception of the narrow gauge additions to the two broad gauge lines just mentioned, the construction of a short line in Bengal—the Northern Bengal Railway—and of one or two other very small lines, nothing has been done in the way of railway extension for some years. Had Government

proceeded steadily and systematically with the construction of branch railways on the narrow gauge, it might by this time have covered the districts intervening between the arterial lines with a network of feeders, and have found employment for its Public Works Minister and his establishment; while, by securing possession of the trunk lines, it would have placed itself in a position to realize to the full the benefit of the additional traffic brought to the old lines by the new ones. Mourning over lost opportunities is profitless work; but one cannot avoid a feeling of regret mingled with some little exasperation, on reflecting that but for the occasion having been lost of getting possession of the trunk lines in the Bombay and Madras Presidencies, when their contracts expired a few years ago, all the great railways would, with the transfer of the East Indian Railway this year, have become the property of the State. Only some of the smaller lines, such as the Oudh, the Punjab, and Eastern Bengal Railways, would have remained the property of guaranteed companies, and of those the contract of one will expire in 1883, and of another in 1885.

The properties of the companies have greatly increased in value of late years; but it is possible that reasonable terms of purchase may still be arranged. In the negotiations entered into for the purchase of the East Indian Railway, Government appears to have acted openly and with fairness; and if negotiations are continued with the other companies in the same spirit, a settlement may

be brought about on terms mutually advantageous to them and to Government. A premium of 20 per cent. on the average—some getting less and some more—would probably satisfy them, provided they got paid in Government of India stock; and there can be no objection to paying them in this form, for the railway capital is already a public obligation. We can either issue stock and regard the railways as an asset against it, using surplus revenue—when a surplus is available—for some other purpose such as the redemption of ordinary debt, or we can redeem the railway capital out of revenue. In the latter case, we may have to contract fresh liabilities for other purposes; and as a rule it is not either politic or profitable to pay off old debt when new liabilities have to be incurred which may cost more than the existing ones. At the same time, we should pay off debt when our means will afford it; but it is necessary to find the means first. In a previous paper I have endeavoured to show how the means may be found. Judiciously managed, the resources of India are more than sufficient for all her requirements.

When the railways have been transferred to the State, it will be in the power of Government to carry out those reductions which are still needed in the tariff rates, and especially in the rates for third-class passengers and goods; to simplify the classification of goods still more than has yet been done; and perhaps to introduce a uniform system of classification and rates of carriage for the whole

of India. These proceedings might further be accompanied, at the same time that they would be greatly assisted, by the establishment of uniform standard weights and measures throughout the entire country—a step which would be of inestimable advantage to trade, and would prove valuable also for purposes of statistical comparison, preventing false deductions and the erroneous action to which these lead. Trade wants no artificial stimulus. It never fails to respond when checks upon its freedom are removed, nor does it fail to bring prosperity along with it. The traffic on the railways is nothing now to what it might be, and, let us hope, will become. Under the more direct control of Government the railways may also be rendered more efficient for large and rapid military movements than they at present are.

A minor advantage which may be stated, is that the two telegraph services may be amalgamated. Government is a loser by its own telegraph lines, and is also a loser by the railway telegraph lines, for the expenditure on the latter is deducted from the traffic receipts payable to Government in liquidation of the outlay for guaranteed interest, the last being a direct charge on the public revenue. I have an impression, however, that with some of the railways such an amalgamation has lately been carried out.

I have no wish to detract from such credit as may be due to the railway shareholders for supplying India with railway communication, but they can scarcely be ac-

corded all the credit, for Government gave a guarantee without which they would not have embarked their capital in railway enterprise in India. Besides the liability undertaken for return of capital, the Government of India has paid some £25,000,000 to the companies under this guarantee to make up the deficiency between their earnings and 5 per cent.; to which sum if we add compensation for land paid on their account, loss by exchange and interest, the companies will be found indebted to Government in a sum of 40 or 50 millions. India has paid somewhat dearly for its railways, but the companies were, nevertheless, probably the most efficient agency which the Government could have employed when railways were first projected there. The contracts were, however, a little one-sided. While Government could not purchase excepting at the end of 25 or 50 years, and then only by paying to the shareholders of each company "a sum equal to the amount of the value of all the shares and capital stock in the said company," the shareholders of the unprofitable lines might at any time demand to be relieved of their property, and to have the whole outlay upon it returned to them. One of the clauses of the contract provides that "after any portion of the said line of railway shall have been finished and in work for three calendar months at least, it shall be lawful for the said railway company, then or at any time thereafter during the said term of 99 years, to give notice in writing of their intention to surrender and re-

linquish the said railway and works on any day to be mentioned in such notice, so that such notice be served at least six calendar months before that day both on the Secretary of State in Council in London, and also on the Secretary of Government at ———; and in case of such notice being given, the said railway company shall, at the expiration thereof, surrender and relinquish to Her Majesty, for the purposes of the Government of India, the said line of railway and works accordingly, together with the telegraphs (if any), and shall, with all convenient speed, sell any lands in Great Britain which may then be held by the said railway company for the purpose of the undertaking to which this contract relates, and pay the clear moneys to be produced by such sale into the Bank of England, to the account of the Secretary of State in Council of India; and shall deliver to the Government, or their authorized agents on behalf of Her Majesty, for the purposes of the Government of India, the engines, carriages, stock, plant, and machinery belonging to the said line of railway and works, and all plans, surveys, sections, printings, writings, drawings, and documents whatsoever connected therewith; and the premises to be so surrendered and delivered shall be accepted and received accordingly, it being expressly agreed that the said line of railway works, stations, telegraphs, engines, carriages, stock, plant, and machinery shall, at the time of such surrender and delivery, be in a good working order, according to the covenant in that behalf herein-

before contained on the part of the said railway company; and immediately upon such surrender and delivery being made, the Secretary of State in Council shall be bound to pay out of the revenues of India to the said railway company the capital expended by the said railway company upon the said railway works and premises so to be surrendered and delivered, such expended capital being ascertained and certified in the manner hereinbefore mentioned, together with such parts (if any) of the capital raised for the purposes of this contract as shall remain in the Bank of England to the account of the Secretary of State in Council, and to discharge and indemnify the said railway company from all debts and liabilities incurred with the sanction of the Secretary of State in Council in respect of the said line of railway; and thereupon the covenants hereinbefore contained for payment of interest shall cease as from the day upon which the said line of railway and works are to be surrendered and accepted; and all claims by the Secretary of State in Council, on account of interest on the said railway company in respect of the said line of railway, shall also cease, and the Secretary of State in Council shall be at liberty to retain out of any moneys payable to the said railway company the amount of all claims and demands of any sort then existing against the said railway company on the revenue account, in respect of their said railway, and which shall not be shown to have been fully satisfied and discharged. Provided always,

that the Secretary of State in Council shall not be liable to refund any sum expended in the maintenance or working of the said line of railway, or any part thereof, after the same shall have been opened, which sum is to be provided by the railway company out of the revenues of the line, and interest, as hereinbefore provided, or otherwise."

The conditions relating to purchase are :—

"That at any time within six calendar months after the expiration of the first 25 years of the said term of 99 years, or at any time within six calendar months after the expiration of the first 50 years of the same term, it shall be lawful for the Secretary of State in Council to give notice to the said railway company in London, and at —, of their intention to purchase on behalf of Her Majesty, for the purposes of the Government of India, the said railway and works, together with the stations and telegraphs (if any), and the engines, carriages, stock, plant, and machinery belonging to the said railway and works, but subject to such debts and liabilities (if any) as may have been incurred to Her Majesty or to the Secretary of State in Council (*exclusive of any arrears of the interest on the capital of the said railway company paid by the Secretary of State in Council, under the conditions of this agreement, which shall not have been repaid*), or to any person or persons with the sanction of the Secretary of State in Council, and to interest on such of the said debts as carry interest from the day on which possession shall be taken of the said railway, but not from any earlier time; and

thereupon at the half-yearly day next but one following such notice, the land to be provided as aforesaid, with the railway thereon, and all buildings, works, fixed machinery, stations, telegraphs, and conveniences whatsoever connected therewith, shall revert to, and become the property of, Her Majesty, for the purposes of the Government of India; and in case any lands in Great Britain shall then be held by the said railway company for the purpose of the undertaking to which this contract relates, the same shall be sold, and the clear moneys to be produced by such sale shall be paid into the Bank of England to the account of the Secretary of State in Council of India; and the said railway company shall at the same time deliver to the Government, or their authorized agents, on behalf of Her Majesty, for the purpose of the Government of India, the engines, carriages, stock, plant, and machinery belonging to the said line of railway and works, and all plans, surveys, sections, books, printings, drawings, writings, and documents whatsoever in any wise relating thereto; and the Secretary of State in Council shall be bound to pay in London out of the revenues of India on the said half-yearly day, for the purchase of all the same premises, a sum equal to the amount of the value of all the shares and capital stock in the said railway company, issued or created for the purposes of the said ——— railway, calculated according to the mean market value in London of such shares or stock during the three years immediately pre-

ceding the expiration of the said period of 25 years, or the said period of 50 years, as the case may be; and shall also be bound to indemnify the said railway company against all such debts and liabilities (if any) as they may have incurred to or with the sanction of the Secretary of State in Council, in respect of the said line of railway, and as shall be then subsisting, and thereupon the covenants hereinbefore contained for payment of interest shall cease.

“That in every or in any case in which, under the provisions of these presents, the East India Company shall become bound to repay the capital expended by the said railway company as aforesaid, or in which the East India Company shall become liable to pay for the purpose of the said railway works and stocks before the expiration of the said term of 99 years, it shall be lawful for the East Company, instead of paying a gross sum of money in respect of the premises, to declare by notice to the said railway company in London their option to pay an annuity to be reckoned from the time when the gross amount would be payable, and to continue during the residue of the said term of 99 years; . . . the rate of interest which shall be used in calculating such annuity being determinated by the average rate of interest during the preceding two years received in London upon public obligations of the East India Company, and which shall be ascertained by reference to the Governor or

Deputy-Governor of the Bank of England for the time being."

The provision that Government shall pay a price to be fixed according to the "market value of the shares during the three years immediately preceding the expiration" of the period when Government may exercise the right of purchase, obviously places a great power of exaction in the hands of the railway shareholders. Their stock cannot depreciate, for the guarantee supports it; and its price may be raised both from natural causes, such as the growth of traffic, and by artificial means. The shareholders, for instance, can hardly be blamed if, by forcing up the price of their stock during the last three years of the contract, they endeavour to extort a heavy payment from Government.

It will be observed, from the terms of the contract, that in the event of Government exercising the right of purchase, the claim of Government to the arrears of interest due by the Companies is to be given up. In its revenue accounts the Government takes credit for a certain "Gain by Exchange on Railway Transactions with England." The "gain" is supposed to arise in this way. Government receives from the railway companies a certain amount of rupees yearly of traffic receipts, and for each rupee received in India gives the companies credit in London for 1s. 10d. only. There is an apparent gain here, but there being a heavy debt due by the companies for the interest paid to their

shareholders, the only effect of reckoning the exchange at one rate instead of another is to make a difference in the amount of the set-off against the debt. Until the debt is repaid there can be no actual gain, and it is unlikely that the debt ever will be repaid. The gain is fictitious from another point of view also; for, by giving the companies credit in London at 1s. 10d. for their rupees, there is actually a loss, the Secretary of State being unable to withdraw rupees from India at a better rate than 1s. 8d. This fictitious item of revenue has been appearing in the Budget accounts for a considerable number of years.

Even did the Government wish to throw off the railways on their own resources, it could not do so, for only those companies which earn 5 per cent. or more on their capital would consent to be cast adrift. The shareholders of the unprofitable lines would stick to their guarantee to the end of the hundred years of their contracts; and Government would be in a worse position by casting the others off than that in which it is now placed. Deprived of the profit on the paying lines, it would still have to make good the deficiency on the unprofitable ones. Government would not be justified, in the general interests of the country, in taking a step which would involve such a result. The best thing Government can do now is to acquire the remaining trunk lines under an arrangement for working them similar to that entered into with the East Indian Rail-

way Company, and to work the State lines on the same system. It is no use keeping up an expensive establishment for these paltry undertakings.

It is sometimes asserted that canals are better adapted to the circumstances of India than railways. The country, it is pointed out, is still, comparatively speaking, poor, and water-carriage, being cheaper than land-carriage, would be more suited to its wants; while canals would have the additional recommendation of supplying irrigation to districts visited by drought. That a system of navigable canals has much to recommend it is no doubt true; but there is some reason to question whether railways do not, by the more rapid means of transport which they provide for both passengers and goods, and because of their strategic importance in military movements, possess greater advantages still. At any rate, India has already got the railways; and it is surely idle to propose—which, nevertheless, has been done—that she shall spend another 100 millions on canals to take their place. The need of irrigation is still felt in many districts; but India does not now want, nor can she afford to pay for, an imperial system of navigable canals. A great deal has been done for the extension of irrigation; it has not by any means been neglected; and what yet remains to be done may most advantageously be confined to schemes of a local character, each framed to meet the peculiar wants and characteristics of the district to which it is intended to apply.

It will have been seen, from what has been said, that the position of railway enterprise in India—if that can be designated enterprise which required a subsidy to call it forth—differs in some essential respects from the position occupied by railway undertakings in Great Britain. In one feature only are they alike: both monopolize the inland highways of commerce. The objection which might hold good in England against conversion of the capital of the railway companies into a State obligation, does not apply in India. In England the liability would be a new one for the State to undertake; in India the liability already rests on the State. Suppose the railways in England to become the property of the nation, and a new mode of locomotion, superior to railways, to be subsequently discovered; the country would find that it had taken a useless liability upon itself. But in India, were railways superseded, Government would still be liable for their cost.

The many benefits conferred by railways upon India, the social and political changes and improvements which they are effecting, and the development through them of the material resources of the country, must not be overlooked. These things I do not either forget or underrate. I have been discussing only the financial wisdom displayed, in recent years, in securing them.

PRIVATE ENTERPRISE IN INDIA AND GOVERNMENT POLICY: AN EXAMPLE.

IN striking contrast with the large-minded policy of Lord Dalhousie is that of a later period. Consistency of action on the part of the Government of India in economical and financial matters is perhaps hardly to be expected. The reasons for this would not be difficult of discovery, were it needful to inquire concerning them. Some would be found in the men who from time to time direct the Government policy; others in the somewhat novel character of the conditions with which the Government has to deal. The conditions are, however, novel no farther than the surface. In all countries they are composed of the same elements—man's industry and the material on which it acts. The principles on which these ought to be treated apply, with but little modification, everywhere. The greatest mistake, perhaps, in fiscal policy ever committed by the Indian Government was made with respect to the Bombay Harbour properties. Than the brief history of this matter, nothing that stands recorded in the annals of the Home policy of the Government of India can be deemed less credit-

able to that Government, more injurious to the special interests affected by the action of Government, or more discouraging to the gradually awakening spirit of private enterprise in India. A good deal has been said and written in India on the subject of private enterprise and of Government relations therewith. Out of the discussion which has taken place some well-defined axioms may be evolved.

(1.) It is for the good of India that local enterprise should be encouraged.

(2.) With this object Government may be justified in going so far as to extend protection to new undertakings until they shall have passed their experimental stage; but

(3.) It is not to the interest either of the individual or of the nation that an industry or undertaking should be protected beyond the experimental stage; and it would be inimical to the healthy development of the industry or undertaking to continue protection for a longer period than may absolutely be needed to test its capabilities of success.

(4.) Finally, Government should be careful to avoid even the semblance of discouragement to private enterprise; and far more should Government guard against placing itself in immediate opposition to, or in competition with, enterprises on which private capital has been embarked.

In the case referred to, the last and most important

of these salutary principles was ruthlessly violated. More than that, Government committed an error very closely resembling a breach of faith. Had Government declined to assist the new undertakings set on foot by private capitalists for the improvement of the Bombay Harbour, there would have been little cause for complaint, although the opinion might be held that Government assistance might have been bestowed on less deserving objects. Had Government chosen to assume the still less friendly attitude of holding aloof from and refusing to encourage or even to countenance the undertakings, it might be said that Government was pursuing a policy the natural effect of which must be to check the spirit of individual enterprise in its first effort at development; that Government, if not actually repressing, was meeting with repelling coldness, the rise of a movement which, fostered by no direct subsidy, but by the genial warmth of public recognition, would germinate and spread until the whole country had been quickened into new industrial life. What, then, shall be said of a policy not only not friendly but directly hostile to private enterprise—of a policy which destroys the confidence which a sense of freedom from interference alone can inspire? Such a policy every one who has the advancement of India at heart will unfailingly condemn. In the present case, State assistance was not needed—non-interference was. By what principles the policy of Government was guided I know not, but the course

pursued placed Government in a position of antagonism to private interests. Worse than this still; the interests which Government did its best to ruin, Government, by its own action, first helped to create. The facts are these :

The Bombay Harbour foreshore originally belonged to Government, and while it remained Government property, nothing was done for its improvement, or if anything was done, it was only in a fitful and imperfect way. The private owners undertook extensive works — not from philanthropic motives, certainly, any more than a Manchester merchant is actuated by philanthropic motives when he imports piece-goods into India. The merchant imports goods not that the people may be better clothed, but in order to make a profit. He knows that he undergoes some risk, but he knows also that he will not have to encounter any competitor rendered stronger than himself by means of extraordinary resources, or, at least, that he will not meet any one who can afford to sell cloth for an indefinitely prolonged period, at a loss, for the public good. In a similar way, the foreshore owners embarked their capital in harbour works, not for the improvement of Bombay, but to earn a profit. They had no reason to expect that they would experience any more formidable competition than that which would arise amongst themselves. Some of their schemes were extravagant, no doubt, but some were not so; and had it been the case that the objects and anticipations of all

were hard of realization, the more need was there that no impediment should be placed in the way of their making the best of their bargain.

In the year 1860, a notification on the subject of harbour improvement appeared in the *Government Gazette*. As the result of deliberations on certain plans which had been prepared by some of the Government officers, the notification stated, "His Excellency in Council is assured that were Government only to put forth authoritatively this really feasible scheme, and notify that it would give prompt permission to execute it either to one company or to several agreeing to do component parts, the mercantile community in Bombay would not be deterred by its magnitude, and would subscribe the money required at once, without seeking for any guarantee from the Government."

This was a clear invitation to private enterprise to engage in the work, and private enterprise responded without soliciting protection in the form of a guarantee. Grants were given by Government on the condition that the grantees should provide landing-places, build warehouses, and generally afford all possible facilities to the shipping of the port. Government in some instances received large sums as the purchase money of these grants. Previous to this time, also, concessions of harbour space had been given to private individuals on similar conditions, and harbour extension made steady progress with the growing requirements of trade. In

1860—63 the prosecution of harbour undertakings, encouraged by the Government notification alluded to, received a fresh impetus from the expansion of the cotton trade. In 1865 and 1866 trade collapsed; and then followed a long period of depression. The trade that remained was not sufficient to occupy to the full extent the accommodation which it had been the intention of the proprietors to provide, and which had, in great part, already been provided. This was the period chosen by Government for buying back one of its grants and entering into competition with the holders of all the others.

Allowing that Government had always contemplated the construction of docks, and the carrying out of other harbour reclamations, there had been, so far, no reason to apprehend that Government would execute its designs at such a time and in such a manner as to seriously diminish the value of the property of other owners, or that it would choose for doing so a time when that value had already been reduced by influences which were within the power of no one to avert. There was one course open to Government which would have precluded the possibility of any question being raised in the future, and that was to have welded the various harbour interests into one; and then to have carried out, by the aid of the additional strength which the amalgamation would have conferred, and its own large means, the plans which, for the time being, the owners were unable to

complete. This might have been done without Government actually acquiring the property; but instead of taking this course, Government purchased the property of one owner and opposed the others, making it still more difficult for them to finish what they had begun, or to realize revenue from the works which already had been completed. A second course was to have bought all the property outright. Government, it has been stated, was deterred, by the fear of creating speculation in the Bombay market, from making the other proprietors an offer. But Government did not hesitate to profit by speculation while it was rife in Bombay; and the price which it would have been called upon to pay—to pay on behalf of trade and of the general interests about which it professes to be so much concerned—would have been small compared with the usefulness of the works and amount of capital which had been expended on them by the owners.

No one regards as interference with trade—which is but another form of enterprise—the importation by Government of articles required for its own use, such as railway material, arms, and ammunition; but if Government were to pass beyond its actual necessities, if it were to enter upon the general business of importers of goods, serious interference and insecurity must result. The only difference between the two cases is, that in the case of harbour enterprise, the field being comparatively limited, the supply of harbour facilities might become,

in time, a monopoly in the hands of a comparatively small number of persons. Had this happened, and had the monopoly, confined to a small number of hands, become oppressive, and the cause of high and burdensome exactions from trade, then there would have been ground for Government intervention; but the progress of foreshore enterprise had not reached this advanced stage. On the contrary, the proprietors were still struggling to raise themselves from the state of prostration into which they had been thrown by the recent collapse in trade, when Government stepped out and dealt the finishing blow which consummated their fall and rendered recovery impossible. It may have been a fortunate occurrence for the owners of the property purchased by Government, that Government took the property over. The other owners, however, had a right to expect and to demand, at this time, that Government should not intervene for the advantage of any one proprietor to the detriment of the rest, but should stand clear and see fair play. The circumstances connected with this transaction need not be repeated here.

No sooner did Government become a harbour proprietor than a Harbour Trust was formed—not, however, to manage all the harbour, but to manage and develop the Government property only. This Trust received from Government exceptional powers and subsidies. It was to be carried on, as intimated in a despatch from the Government of India to the Government of Bombay,

“by the aid of the general credit of the State;” and it was to be conducted, according to instructions which issued from the same quarter, on the same principle as a mercantile company, “perfect freedom of trade and competition being permitted.” This state of perfect freedom was, however, to be confined to the managers of the Government estate. The owners of one of the private properties, viewing with apprehension the large extensions being made by Government, proposed to add a pier to their property. Permission to do so was refused on the ground that Government intended to provide all the facilities required. The capital and other funds required by the Trust were supplied by Government in the following manner:—

| | |
|--|----------------|
| Capital bearing interest at 4 per cent. | Rs. 211,70,624 |
| Capital <i>not bearing interest, and not repayable to Government</i> | 41,89,079 |
| Capital <i>not bearing interest, but to be repaid to Government</i> | 8,44,678 |
| Deficit on revenue account, placed to suspense account | 1,64,861 |
| Deficit on revenue account, placed to suspense account | 91,080 |
| Loan from Government | 2,55,000 |
| Loan from Government | 5,90,000 |

This was no ordinary competitor. The private proprietors had not this unlimited command of money; they could not borrow without paying interest; they had to pay higher rates than 4 per cent. when they had to borrow, and they could not hold their yearly deficits

in suspense. Private capital is limited, and may soon be exhausted. Private credit also has a limit, and would quickly be outrun if at the same time that capital was decreasing fresh liabilities were contracted. The store from which Government makes appropriations is the capital of the country, and the credit on which Government borrows the public credit.

So the competition went on for ten years, Government underselling the proprietors, they underselling Government, and both making heavy losses. It came to be a question who had the longest purse, and Government had the advantage there. The struggle was brought to an end only last year, the proprietors being driven into the relinquishment of their grants on terms which gave them but a sorry return for all their efforts and outlay of capital. The object of their enterprise had been frustrated. No compensation which they could have obtained would have been sufficient to indemnify them for the opposition offered by Government to the development of their properties and for the loss of time which had thrown them behind while Government works were being pushed forward.

I do not for a moment pretend to assert that Government entered upon this path of injustice with a knowledge of the consequences which its action would entail. I do not believe that Government realized the consequences, although the facts were all before it. A wrong step, once taken, is often difficult to retrace.

Various pleas were put forward in defence of the Government action. It was said that Government acted for the benefit of the trade and general interests of Bombay; that nothing had been taken from the proprietors which the law gave them, and so on. The principles of sound public policy are not taken from legal codes. The laws are founded upon them, but do not contain them all. The principle that Government shall abstain from any action which may prove destructive of honest individual effort cannot be formulated into law, although it may be desirable that it should be so formulated. General interests, it is admitted, should outweigh all others; but there would be an end to all security of property and to all good faith were this doctrine to be carried to such a length as would lead to the repudiation and repression of all individual rights. Sometimes it occurs that the general public are called on to contribute in the form of protective duties, by subsidy or otherwise, to the success of new undertakings; but the reverse of this policy—the policy which requires that the busy, the enterprising members of the community shall contribute, and not only contribute from their income, as all of us are expected to do, but give up the better part of their capital, for the benefit of the whole community, or of other sections of the community—is a policy which may indeed have been dreamt of, but had never before been put in practice. To sacrifice private property for the public good is as clearly an act of confiscation as it would

be to levy a contribution from a limited number of individuals for the liquidation of the public debt.

Suppose that I am the owner of a moderately thriving business—say that I keep a hotel—and that I am possessed of large means, but that I have not made so much of my property as I might have done. I sell the goodwill of my business to a neighbour poorer than myself, who spends his money—perhaps all he has—in adapting the property to the requirements and tastes of the public. No sooner has he done this, than I, with my large means, which have been considerably added to by the sum received from my poor neighbour, build a gigantic hotel immediately alongside his, and not content with doing this, set up a number of smaller hotels like his along all the main thoroughfares between the railway stations and the harbour, so that I may catch as many as possible of the travellers who are not attracted to my big hotel by its superior conveniences. Hotel accommodation would, under those circumstances, become exceptionally cheap. My neighbour's charges would be reduced below what they were when the business belonged to me—probably below what it cost him to keep up his establishment and bring in a reasonable return on his capital; and not only that: instead of the increase in the numbers of travellers frequenting his hotel, which he had calculated upon, the numbers, he would find, had diminished. The travelling public would no doubt be much obliged to me—what I had

done might even be regarded as a public service; but would I have acted a fair or honourable part towards my neighbour? It might be that he had paid me for the goodwill more than it was worth; but so much the more reason would there be, in that case, that I should not interfere with him, and that he should be left to make the best of his bargain. If, then, I, an individual, would by adopting such a course be held to have acted wrongly, how much greater the wrong when Government, with the whole strength of its resources, is the aggressor?

Or suppose that Government, becoming desirous of supplying the people with cheap clothing, were to purchase a spinning and weaving mill, and so extend it as to produce enough cloth to satisfy the wants of the whole community; that, by virtue of its resources, Government was enabled to go on producing cloth, regardless of the cost, until the trade of all the other millowners had been destroyed. What would be thought of the conduct of Government towards the other millowners, and what would become of the manufacturers of cloth? Suppose, yet further, that the millowners held special charters from the Government, permitting them to manufacture cloth, and that they had paid for the permission. Would this not aggravate the offence of Government in turning against them afterwards?

Suppose another case—suppose that Government, still anxious that the community should be cheaply

clothed, were, instead of establishing a weaving mill, to devote a large portion of the public money in its keeping to the importation of Manchester goods. What would the Manchester importer say, and what would become of foreign trade? One of the principal of the commodities imported into India would be in over-supply, and the trade in it unprofitable. The consumer of cotton goods would no doubt regard as highly satisfactory an arrangement which gave him cheap clothing, and would not concern himself much about the consequences to the local producer or importer, but the benefit to the consumer could not be urged in vindication of the course which Government had pursued.

If the example of the fate of the Bombay Harbour proprietors is such as may quench the last remaining spark of enterprise in the city of Bombay, it is certain to make its depressing influence felt in other parts of India besides. Professions of an anxious desire to promote the material advancement of the country by the encouragement of local endeavour are all very well, but profession and practice should go hand in hand. The example on which it has been my unpleasant duty to comment is more likely to paralyse than promote. It would have been satisfactory could there have been recorded of those to whom must be traced the responsibility of that example a more intelligent appreciation of the principles on which rest the foundations of a nation's progress and a nation's wealth.

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